

# FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

Friday April 8 1983

Snia Viscosa  
takes up  
arms, Page 19

D 8523 B  
Sri Lanka  
Jordan  
Dove  
Sri Lanka

Accts.	£15	Industries	£252	Philippines	Per 70
Balances	£10	Industries	£110	Per 95	Per 95
Bonds	£25	Industries	£50	Per 95	Per 95
Carriers	£25.50	Industries	£45.50	Per 95	Per 95
Dealers	£12.50	Industries	£25.50	Per 95	Per 95
Exps.	£15.00	Industries	£1.00	Per 95	Per 95
Interest	£1.00	Industries	£1.00	Per 95	Per 95
France	£1.00	Industries	£4.25	Per 95	Per 95
Germany	£1.00	Industries	£1.00	Per 95	Per 95
Indonesia	£1.00	Industries	£1.00	Per 95	Per 95
India	£0.15	Industries	£1.00	Per 95	Per 95
Japan	£1.00	Industries	£1.00	Per 95	Per 95
Malta	£1.00	Industries	£1.00	Per 95	Per 95
Peru	£1.00	Industries	£1.00	Per 95	Per 95
Portugal	£1.00	Industries	£1.00	Per 95	Per 95
Spain	£1.00	Industries	£1.00	Per 95	Per 95
Sweden	£1.00	Industries	£1.00	Per 95	Per 95
U.S.A.	£1.00	Industries	£1.00	Per 95	Per 95

No. 29,043

## NEWS SUMMARY

### GENERAL

## Concern over U.S. currency Nicaragua reserves policy recover

Cover U.S. involvement in Central America could fast become a major political issue in Washington, the State Department fears.

The Department was yesterday reported to have raised with the White House questions about the legality of U.S. backing for right-wing rebels fighting the Sandinist Government of Nicaragua from bases in Honduras. Leader of El Salvadorian opposition assassinated: Congressmen question fresh aid for El Salvador, Page 3.

### Win of confidence

The French Government won by a comfortable 323 to 155 margin its confidence vote after a stormy debate in the National Assembly, Page 3.

### Nikomo's son freed

Tulani Nikomo, son of self-exiled Zulu leader Joshua Nikomo, was freed by Zimbabwe authorities after being held for a month on suspicion of having helped his father flee the country.

### Life sentence

Jerusalem district court jailed Alan Goodman for 40 years for a shooting spree which killed two people and injured 30 at the Dome of the Rock mosque in Easter Sunday last year.

### Male excess

China is experiencing an epidemic of female infanticide, which has created a shortage of live to one between boys and female children in some areas. An official survey says this is because of the policy of limiting families to one child, Page 4.

### Sporting casualty

French sports federations have been asked by the Government to cut all links with South Africa. First casualty is likely to be a national rugby team tour planned for June.

### Soviets detained

British military authorities in West Germany briefly detained a number of Soviet army officers driving near the Netherlands border.

### Record heroin haul

A Frankfurt customs officer seized the largest amount of heroin ever found in West Germany, 20.4kg, in a routine baggage search at the airport.

### Spy suspect on bail

Italian magistrates freed Soviet businessman Victor Kornev, arrested on military spying charges in February, on bail of £50m (\$30,000).

### Tanzanian purge

Three senior Tanzanian officials were sacked for failing to carry out government directives against economic saboteurs.

### Three shot dead

Three people were shot dead when gunmen attacked the home of a leader of the youth wing of the ruling Uganda People's Congress and three prominent people were abducted in the same area.

### Briefly...

North Korean Politburo member Rim Chun-Chu was elected one of three vice-presidents.

Former Rhodesian premier Ian Smith was given a British passport. Earthquake measuring six on the Richter scale struck part of Tadzhikistan in Soviet Central Asia.

### BUSINESS

## Warsaw Pact 'prepared to negotiate' on missiles

BY LESLIE COLITT IN BERLIN AND REGINALD DALE IN WASHINGTON

THE WARSAW PACT said it is prepared to "constructively examine" proposals put forth by NATO for the removal of medium range and tactical nuclear weapons in Europe.

The conciliatory statement followed the Soviet Union's rejection of President Ronald Reagan's proposal of an interim missile agreement which would have provided for the number of warheads on both sides to be below the 572 which the United States plans to deploy on medium range missiles in Western Europe.

The Warsaw Pact ministers stressed the role which Europe could play in achieving mutual se-

curity and co-operation. This appeared to indicate that Western Europeans should put greater pressure on the U.S. to make concessions at the Geneva talks.

The communiqué spoke warmly of the "forces of peace," apparently referring to the recent dismantlement marches in Western Europe. It added that the Pact hoped NATO will act "positively" on its proposal made last January to conclude a non-aggression treaty with Western Europe.

The Foreign Ministers of the So-

viet Union and Eastern Europe said they discussed the "earliest possible" start of direct negotiations between the two military blocks on freezing defence expenditures and then reducing them.

The communiqué said the Madrid follow-up conference to the Helsinki security and co-operation conference of 1978 should conclude a final document as soon as possible, which would be "substantive and balanced."

It said the time had come to con-

clude the work of the Madrid fol-

The U.S., however, yesterday publicly accused the Soviet Union of dragging its feet in the Geneva talks but said progress was still possible this year if Moscow was prepared to negotiate seriously.

While the U.S. had made a num-

ber of proposals the Soviet reaction had been "dilatory and disappointing," the White House said.

The White House statement was the latest in a string of tough anti-Soviet comments that the Reagan administration has made in recent weeks.

## VW sells Michigan plant to Chrysler and omits dividend

BY RICHARD LAMBERT IN NEW YORK AND STEWART FLEMING IN FRANKFURT

Volkswagen yesterday took a major step back from the U.S. market by agreeing to sell an unfinished assembly plant in Michigan to Chrysler Corporation. It also announced in West Germany that it would not pay a dividend for 1982, the first time since 1975 that VW shareholders will receive no payment.

It had been known for several months that the company would report a loss for 1982, and there had been speculation about a cut in dividend. Yesterday in Frankfurt the shares fell DM 5 to DM 176.

The sale of the Sterling Heights plant will leave Volkswagen of America with one assembly plant in Westmoreland, Pennsylvania, where production has been cut back sharply in the past year.

Volkswagen had at one stage intended to invest \$300m in Sterling Heights, a suburb of Detroit, and had hoped to be building at a rate of up to 180,000 cars a year at the plant by the 1986 model year. But at the end of 1981, with its U.S. sales coming under serious pressure, it decided to defer its production plans indefinitely.

Last year, it became known that the company was open to offers for Sterling Heights, and all the major U.S. manufacturers are thought to have considered buying it. The fact that Chrysler has emerged as the buyer underlines the remarkable turnaround which has taken place at the third biggest U.S. motor manufacturer during the past two years.

Although neither side would disclose the sales price yesterday, the deal will involve a series of cash payments to Volkswagen of America over a 12-year period, and the West German-owned company will retain a security interest in the plant for the duration of the financial agreement. The building is

around 80 per cent complete, and is thought to have cost Volkswagen at least \$130m.

Chrysler said it would invest more than \$180m to prepare the plant for the production of front-wheel-drive vehicles, starting in July of this year. Hourly employment would reach 1,000 when the plant reaches an output of about 60 vehicles an hour on a single shift basis, and it would be equipped to build 260,000 cars a year on two shifts.

Chrysler said that the plant will be used to build a new model called the "H" car. It said this would be a four-door sedan, but would give no further details. The plant might also be used to produce a front-

wheel-drive version of Chrysler's New Yorker model.

Volkswagen started production in the U.S. in 1978 with the Rabbit, which is based on the Golf model sold in Europe. But after an early success, its Rabbit sales have been badly hit by Japanese competition and a swing away from small, fuel-efficient cars.

Sales of Volkswagen's U.S. products last year collapsed from 162,445 to 91,166, and they have fallen by another 21 per cent to 17,405 vehicles so far in 1983.

As a result, output at Westmoreland has been cut back to 470 a day from a peak of over 1,000, and total employment has been reduced from over 5,000 to around 3,000. Mr James McLernon resigned suddenly as president and chief executive last autumn.

Volkswagen will be reporting its results in detail later this month and yesterday the company gave no official explanation for the decision to cut the dividend.

In addition to its U.S. problems, it was also losing money in Brazil until late last year. The company is also having to provide lavish support for Triumph-Adler, its office products subsidiary, which recently disclosed losses for 1982 of DM 150m and said it would write off loans to it of DM 100m.

Volkswagen has said that its parent company would report a profit for 1982 but that the group as a whole would report a loss.



Dr Kari Hahn, VW chief

## Reversal for pound as shares surge

By Jeremy Stone in London

THE LONDON equity market caught the scent of a possible cut in banks' base lending rates yesterday morning, and share prices rose strongly for the second day running. At the same time, sterling's sharp recovery over the past few days turned into a modest relapse, slowing the fall in UK money market rates, and pushing the likely moment for cutting bank base rates further into the future.

The FT Industrial Ordinary Index, the hourly barometer of the share price movements of 30 leading companies, closed at 672.2, taking its two-day rise to 18.2 points. This was only 1.4 below its record level of March 15, Budget Day. The day's star performer was BAT Industries, whose exceptional results added 10 per cent to the share company's price, giving extra impetus to the market.

Early falls in interbank interest rates gave rise to suspicions that the clearing banks might act on base rates yesterday, as the three-month rate dropped to 10% per cent. But the Bank of England's refusal of hills offered for sale by the discount houses at correspondingly audacious prices left the money markets short of around £235m (or the Bank's forecast), driving the cost of overnight money up as far as 28 per cent. This was viewed in the market as a hint not to pursue lower interest rates too hastily.

Sterling's reverse on the foreign exchange market reinforced

Continued on Page 18

London share prices, Pages 34-35; Money Markets, Page 36

## BIS criticises U.S. policy on \$ intervention

BY DAVID MARSH IN PARIS

THE BANK for International Settlements (BIS), the Basle-based institution run by the world's leading central banks, has delivered a strong and detailed attack on U.S. Government's reliance on intervention to control the dollar on currency markets.

The rebuff of American views comes just a few weeks before a French-sponsored international study on the desirability of official currency intervention, commissioned after last year's seven-nation Versailles summit, is due to be published.

The criticism is contained in a BIS study document written by two senior staff members. Its conclusion, based on detailed analysis of past movements of the D-Mark yen and sterling against the dollar, is that official intervention predominantly has a helpful, stabilising influence on currency movements.

Although written in technical and scholarly language - it does not for instance mention explicitly the U.S. position -- the report denounces the practice of central bank intervention as being "highly unreliable" or even "utterly meaningless."

This is because these studies fail to take account of differences in international interest rates and of changes of exchange rates over time, both of which affect the "profitability" criteria.

Instead, the BIS report focuses attention on whether intervention during 1974 to 1982 has been "stabilising," in the sense of pushing exchange rates towards an "equilibrium level" defined as the 35-month moving average of actual currency rates.

Using different, rigorously worked-out mathematical criteria, the study shows that dollar intervention by the British, West German and Japanese central banks during this period has generally "stabilised" exchange rates for more often than it has "destabilised" them.

## Brazil's surplus tops \$514m in March

BY ANDREW WHITLEY IN RIO DE JANEIRO

BRAZIL's economic authorities were jubilant yesterday following the announcement by Sr Ernesto Galves, finance minister, that the country turned in a record \$514m trade surplus in March.

The figure is, at last, in line with the monthly surplus needed to achieve the highly ambitious target of a \$60m trade surplus this year, that the Government has set. The accumulated trade surplus in the first quarter came to \$644m, better than the total 1982 figure of \$778m.

A string of disappointing trade figures led to February's major devaluation of the cruzeiro by 23 per cent. However, the unexpectedly good performance in March should bring some relief to the many Western bankers engaged in the arduous task of keeping Brazil afloat in its external balance of payments.

The growing expectation here and abroad has been that the Government of President Joao Figueiredo will be forced to turn to the international money market within the next few months for a second "jumbo loan," to stave off default on its \$90bn foreign debt.

While too much cannot be pinned

## BAT lifts profits to £856m

By Ray Maughan in London

BAT Industries, the UK-based tobacco giant which sells an estimated 600m cigarettes around the world, increased its profits last year by £172m to £356m (£1.3bn). Sales rose by 24 per cent to £1.5bn.

The impetus for the 25 per cent lift in pre-tax profits stems in large part from currency swings affecting BAT's international operations.

North American operations contributed trading profits of £383m, a £10m rise, almost half the group's total. Overall, tobacco profits contributed 73 per cent so BAT is still some way from its stated objective of lifting the non-tobacco divisions to 40 per cent of group profits.

The Brazilian finance ministry said on Tuesday the two-way trade envisaged with Mexico could reach an annual figure of \$400m last year and \$500m in 1983.

Continued on Page 18

## EUROPEAN NEWS

Peter Bruce, recently in Leipzig, reports on an industry with an eye for technology

## East German machine tools: Challenge to the West

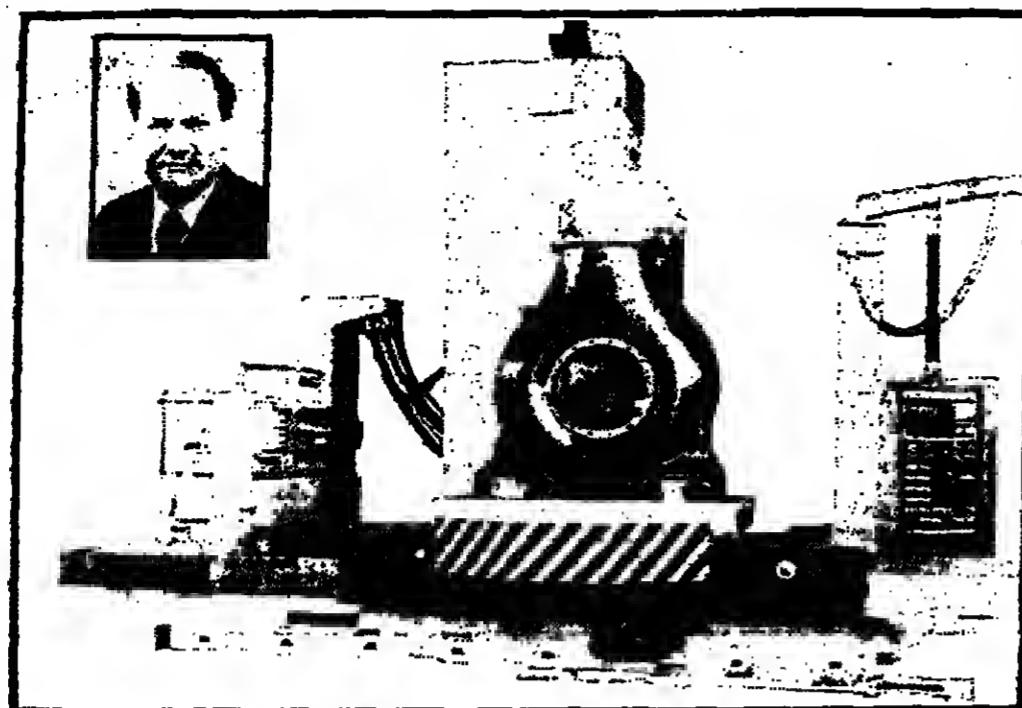
FEW PEOPLE in Eastern Europe are watching for signs of an economic recovery in the West more closely than Dr Jost Prescher, salesman-in-chief for East Germany's machine tool industry. Dr Prescher, director general of WMW Export Import, the industry's trading arm, remains cautious however.

"The UK market seems to be picking up," he says, "but we will see." Like his Western competitors, Dr Prescher has seen signs of recovery, measured by the level of sales inquiries, come and go without a machine being sold. The East Germans burned their fingers in the UK last year, especially in the UK where an estimated £1.4m worth of stock was hardly moved.

Unlikely Western machine tool manufacturers, WMW feels it can afford to be a little more sanguine about prospects for an upturn in Western Europe. The East German machine tool industry has a virtually insatiable market in the Soviet Union.

"Demand from the USSR is endless," says Dr Prescher. "It is our fastest growing and technically most interesting market." In the past 10 years, the East Germans claim to have retooled completely the Soviet electric motor industry and WMW has recently signed a \$190m contract with Moscow—one of the biggest machine tool orders ever.

It is almost impossible to calculate how profitable this trade is. Dr Prescher admits that barter arrangements are involved in a "remarkably high" percentage of sales. This probably means that almost all sales within Comecon involve compensation agreements. Barter



Dr Jost Prescher and one of his company's products

trade also extends elsewhere, including the sale recently of around 1,000 milling machines to Iran.

Despite the imposition of rigid production strategies on the East German industry by the Socialist authorities, the country has proved a natural centre for the production of sophisticated products for Comecon. The industry shares, with its West German counterpart, a tradition for export and for building specially tailored machines.

Currently, some 75 per cent of production is exported, with

nearly half the exports going to the Soviet Union and about 20 per cent to the West. As recently as 1977, exports accounted for more than 90 per cent of output. As a measure of industry's preoccupation with custom built machines (unlike the mass production of the Japanese), Dr Prescher claims to make less than 20 per cent of his exports to the West from stock.

East Germany is probably the fifth biggest producer of machine tools in the world—of intake of East German machine tools by nearly 20 per cent last year, Western markets are crucial to WMW.

Germany. Its exports in 1979, worth some \$680m, were worth only a little less than those of France and Britain combined. By 1981 exports had risen to \$882m. The industry employs more than 70,000 people in 42 plants, centred chiefly around Karl Marx Stadt and grouped into four broadly specialist "kombinats" (combines).

Despite the Soviet market, which made up for losses in the West by increasing its intake of East German machine tools by nearly 20 per cent last year, Western markets are crucial to WMW.

With the development of computer controlled flexible manufacturing systems (FMS), East German engineers privately admit they badly need a showcase for their technology in the West.

They have the technology,

and claim, like a number of Western manufacturers, to have been first with FMS—having built a system for their own use in 1970. That particular system, according to Western observers, is not particularly efficient or flexible, but then neither were any of the early Western attempts.

But this early development

does show a freedom to innovate without needing a return on investment which could spell trouble for Western manufacturers enthusing about FMS, who tend to see only the Japanese over their shoulders.

Largely because East German machine tool manufacturers have had to keep up with demand for increasing sophistication from Moscow, they are now in a position to pose a serious challenge to Western manufacturers who are beginning to design and sell automated systems.

The key to their good position

is an informal partnership with Asea, the Swedish robot builder. Asea and WMW have already built one FMS in East Germany and are looking for other opportunities.

WMW has quoted for three

FMS systems in the UK, including one for a nationalised company, and salesmen say they have had inquiries about others.

Although partnerships like the one between WMW and Asea are not uncommon in the West, observers believe the Swedish group's robot and systems expertise places the East

Germans with the leaders in FMS.

Although almost all interest in machine tools today is being generated by FMS, the systems are expensive and still regarded by industry in the West with some reserve. For the moment, the single "stand alone" machine forms by far the bulk of any manufacturer's output.

WMW salesmen and engineers acknowledge that their products are at best on a par with EEC competitors on price, but much more expensive than the Japanese in the important computer-controlled machining centre and lathe markets.

Their difficulty until now has been the enormous cost of adapting Western electronic controls to the machines they sell in the West. In the past five years, the Machine Tools Ministry has spent an audience sum perhaps as much as \$5m on developing their own computer controls, but these have been met with scepticism by Western buyers. For this reason, nearly all the machines sold in the West are still being fitted with Western control systems, chiefly Siemens.

With the control system accounting for around 40 per cent of the cost of a complete computer numerically controlled (CNC) machine tool, the result has been to maintain WMW prices in the West at roughly 20 per cent higher than the East. Germans believe they need to be.

WMW salesmen feel, however, that 1983 may present a new opportunity to establish their own control systems in Western markets. They claim, and a number of Western

machine tool experts agree, that

the new family of East German CNC controls broadly matches

any competition.

## Consumer optimism grows in EEC

By Larry Klinger in Brussels

CONSUMERS IN the European Community are becoming increasingly "less pessimistic" about the economic outlook, according to a European Commission report published yesterday.

Households surveyed in January reported improved personal finances compared with three months ago and indicated the greatest optimism in nearly four years that inflation was being brought under control. Moreover, they expected no further serious deterioration in the trend in unemployment.

However, the Commission's overall "consumer confidence index" remained unchanged, reflecting a deterioration in prospects for the purchase of large durable goods.

The report follows this week's Commission survey of wider economic trends which indicated a considerable upsurge in optimism among EEC industries about the prospects for economic recovery.

Consumer opinion varied considerably by country. Views on economic prospects improved substantially in West Germany, France, Italy, Denmark, Ireland, and the Netherlands, but they deteriorated noticeably in Britain and Belgium.

The Commission noted, however, that, although the UK went against the EEC trend, British consumers were found in other countries in Europe almost never occur and many Italian employers say workers make up lost time with extra effort.

In other related disputes, negotiations for a contract for so-called "parasatal" employees working in semi-monopolies or Government-controlled agencies broke down early yesterday morning.

The new contracts have to be reached within the terms of the state "mobile" agreement which amounted to a declaration of intent by the Government, unions and employees to try to bring down inflation to 15 per cent this year from 16 per cent in 1982.

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## Italian public employees strike

By John Philips in Rome

SOME 300,000 Italian public employees held a day-long strike yesterday in pursuit of a new labour contract that was delayed by the long wrangling before the historic agreement signed in January.

More than 800 Austrian lorries were held up at the Brenner Pass and other frontier posts in northern Italy as customs officials joined the dispute. Tourism was also disrupted severely.

Government ministries, libraries and museums throughout Italy were closed by the strike, called jointly by the three main union federations—the Communist-dominated CISL, the Christian Democrat-linked CISL, and the Socialist-backed UIL.

The pay contracts expired in December 1982, but the national employers' federation declined to renew them until the problem of wage indexation was resolved. The search for new four-year contracts is seen as the first major test of just how far the indexation accord will guarantee industrial peace.

So far, the unions have only risked limited industrial action, such as a one-day strike by more than 1m metalworkers last month.

Although trade unionist still use the militant language that grew out of the agitation of the 1970s, all-out strikes of the kind found in other countries in Europe almost never occur and many Italian employers say workers make up lost time with extra effort.

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## Polish authorities told they must replace force with persuasion

By CHRISTOPHER BOBINSKI IN WARSAW

THE POLISH authorities will have to use persuasion and argument, rather than their present repressive methods, to combat the underground movement once martial law is lifted completely. This is the view of Col Stanislaw Kwiatkowski, head of the Government's new public opinion research centre.

Writing in Trybuna Ludu, the Communist Party newspaper, Col Kwiatkowski points out that the present "opposition is basic-

ally intellectual and it is on this field that it should be faced." He implies that the authorities are unprepared for this kind of confrontation, in which the party hardliners—"the ideological gendarmerie" as the colonel calls them—will be of little use.

Effort should be concentrated on winning the support of the population, to isolate the opposition rather than eliminate it, he suggests.

TYCOM HAS CREATED A DESK TOP COMPUTER WHICH IS FUTURE-PROOF AND, BY DOING SO, HAS SHOWN THE COMPUTER INDUSTRY A WAY OUT OF A BIND THAT WAS LOOKING SUSPICIOUSLY LIKE PLANNED OBSOLESCENCE.

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MICROFRAME, FROM THE TYCOM CORPORATION, WILL MAKE WITH VIR-TUAL ANY PROCESSOR, PRESENT OR FUTURE. NO OTHER COMPUTER

that there was hardline opposition inside the party to the present leadership, recruited, he implies, from the discredited central organization.

His statement drew fire from a former ideological official who wrote in Trybuna Ludu that the colonel was neglecting the dangers represented by the "liberal" wing in the party.

• A senior Polish planning official has reiterated the Government's interest in achieving

ing convertibility for the zloty, the country's currency.

"The road to convertibility is long and difficult but the first steps have been taken," Mr Stanislaw Dlugosz, a deputy head of the Planning Commission, told the Zycie Warszawy newspaper.

Hungary had advanced fur-

ther in the Socialist bloc

towards convertibility, he said, claiming that a system of retention quotas introduced last year

had started the process in Poland.

Convertibility is one of the aims of the economic reforms instituted last year. Under the quota system, exporting com-

panies are permitted to spend, as they see fit, a percentage of their hard currency earnings.

Normally, they would have to apply for funds to a Planning Commission steering committee.

The bulk of import finance is allocated in this way.

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THERE WERE SOME RED FACES IN TOKYO AND SILICON VALLEY WHEN WE GAZUMPED WITH A FUTURE-PROOF COMPUTER.

CANDIDLY, THEY'RE HOPEING WELL FOLLOW DOWN ON DISTRIBUTION AND WE WILL LOOK VERY SILLY IF EVENTS PROVE OUR RIVALS RIGHT.

YOU SEE, IT'S NOT A SLICE OF THE PIE WE'RE AFTER.



## Italian public employer strike

By John Phillips  
OME 300,000 employees held a new labour conference yesterday before the historic vote on wage indexation.

More than 800,000 were held in Bremner Pass and posts in northern towns. Officials joined the Prime Minister.

Government ministers and members of the trade unions were closed by the party to the new administration of M. Pierre Mauroy.

The Communists have warned them they are considering voting against the Government.

The Government, which

includes four Communist ministers, will ask the National Assembly on Monday to enable it to rush through some of its new austerity measures by decree law rather than through the traditional and far longer parliamentary process.

The two-year contract is the first major test for the indecisive and indecisive government.

So far, the unions have not issued any strike as much as a one-day more than in months.

Although trade has been the mainstay since 1970s, all-out strikes are found in other European nations where many employers make up for the extra effort.

In other respects, the new campaign reached within the last month, what they can do within their spending limits.

The measures are expected to have more impact in the hotel business of the Costa del Sol, the Spanish Mediterranean islands, and the Canaries, than to the Costa Brava, which attracts masses of low-spending French visitors.

Although the French account for a quarter of Spain's foreign visitors—almost 11m out of 40m

in 1982—barely half are considered genuine tourists. Many others simply cross the border on shopping expeditions.

The French also spend much less in Spain than other nationalities. In terms of hotel nights in Spain last year they accounted for little more than 5 per cent, compared with 24 per cent for British holidaymakers, and 19 per cent for West Germans.

Over the Easter weekend, passenger car traffic over the French-Spanish border actually

showed a sharp increase and holiday operators detected little or no impact from the French measures. But they said it was too soon to judge the effect on summer trade.

Italian hoteliers and travel agents have already voiced alarm at the effect on their business of the French currency restrictions—perhaps forgetting that Italy has had similar restrictions in force for years, writes James Buxton in Rome.

Until the announcement from

the new government, what they can do within their spending limits.

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## OVERSEAS NEWS

Michael Thompson-Noel in Canberra reports on Australia's forthcoming national economic summit

## Hawke's Herculean determination is put to the test



Sir Keith Campbell (above) and Sir Arvie Farbo ... among top businessmen

AUSTRALIANS are by nature combative—hence their broad-based disbelief at the unaccustomed calm that has gripped the continent in the five weeks since Mr Bob Hawke and his Australian Labor Party swept to an historic landslide win in the country's General Election on March 5.

There have been some diversions: Mr Hawke's 10 per cent devaluation of the Australian dollar on March 8 (a move necessitated by substantial capital haemorrhaging); a visit of the Prince and Princess of Wales; a looming constitutional showdown with the State of Tasmania over the proposed damming of the South West wilderness; and substantial falls of rain, which promise to break the country's costliest ever drought.

On Monday this mood will change. Mr Hawke is due to open a week-long national summit meeting in Canberra the success or failure of which could colour not only the career of the Hawke Government, but also Australia's economic and business prospects until the end of the decade.

Mr Hawke says the main aim of the meeting is to help foster an attitude of national co-operation and consensus following what he calls the divisiveness of the seven-year reign of the

former Liberal PM, Mr Malcolm Fraser. His rejection by the voters was so humiliating that he has resigned from parliament altogether.

Mr Hawke hopes the summit will address itself to possible solutions to the problems that bedevil the economy, especially the future management of wages and the banding of wage claims.

Next week's line-up is certainly impressive. The Government is fielding eight Ministers, while there will be 14 representatives from the six states and the Northern Territory.

The unions will be represented by the 27-member executive of the Australian Council of Trade Unions. Employer and business groups attending include the Australian Bankers Association, the Chamber of Commerce, the Industries Development Association, the National Farmers Federation, and the Metal Trades Industry Association.

There will also be a clutch of top businessmen, including Sir Peter Abler (Thomas Mulroney Transport), Sir Keith Campbell (Hoover Corporation), Mr Brian Kelman (CSR), Mr Brian Loton (Broken Hill Proprietary) and Sir Arvie Farbo (Western Mining). All told, about 100 will attend, plus advisers, observers, lobbyists and media.

At present, things are running Mr Hawke's way, for both the employers and the unions are in an optimistic mood, and ready to make concessions provided they are not seen to get egg on their faces. Tough talking is inevitable however.

As a prelude to the summit, the Government yesterday pub-

£554.6bn.

This figure, released for the first time yesterday, is the largest real increase for almost a decade, and represents a record 5.6 per cent of forecast Gross Domestic Product. The size of the projected deficit has proved a bitter blow for Labor — jeopardising its election

large current account deficits financed largely by private capital inflows. In 1981-1982 the current account deficit was \$36bn, or 6.1 per cent of GDP.

Much tension next week will focus on wage inflation. In the 12 months to December 1982 total average weekly earnings rose by 14.8 per cent, harming

still further Australia's international competitiveness, and contributing to mounting layoffs, particularly in the embattled car, coal and steel industries.

Other fundamental problems that the summit must discuss include restoration of profit levels, industry and trade protection policy (particularly the further hedging of certain key sectors), industrial relations and job creation.

The meeting will produce a lot of hard pondering and, knowing Australians, probably a deal of hard bussing. For Mr Hawke and his Government, it will be vitally important.

The authority of Mr Hawke's election win on March 8 was such that, in the view of commentators, he is in a position to do almost what he chooses.

Yet his options are limited,

which is why, next week, his famous charisma and Herculean determination will be put fully to the test.

lised a swathe of economic data to help convince Australians of the country's current economic plight. This exercise of "open government" has caused near seizure in the

promises to boost public investment and cut income taxes. In addition, Labor had said it would create 500,000 jobs and produce a growth rate of 5 per cent by 1988.

Other signs are also not promising. Australia's inflation rate is 11 per cent, more than double that of its major OECD trading partners. Unemployment last month was 10.4 per cent, and rising. Despite the rain, the rural economy is still badly depressed and mining profits have been decimated.

The balance of payments continues to be characterised by

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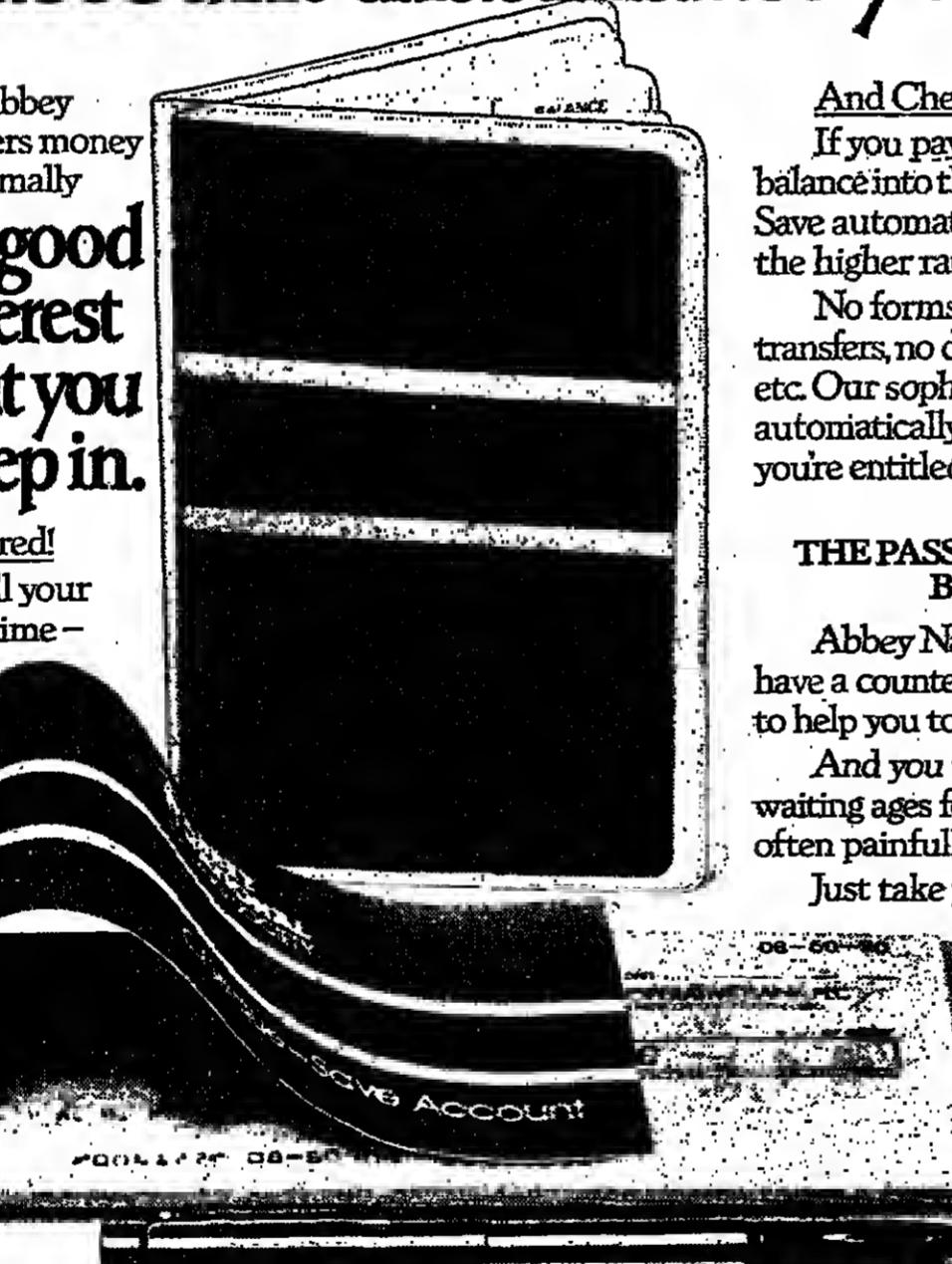
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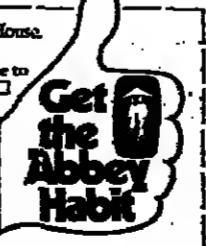
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\*Equivalent gross rate where income tax is paid at the basic rate of 30%.

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## China bans cultural exchanges with U.S. in tennis star row

BY MARK BAKER IN PEKING

CHINA HAS stepped up its attacks on the U.S. over the granting of political asylum to tennis star Hu Na by banning all planned cultural exchanges between the two countries by five Chinese artists.

Other events affected will be a general proposal for an exchange of a "small performing arts group" and reciprocal tours by cinematographers, journalists, foreign language publishers and groups led by artistic and journalistic delegations.

The move is the latest in a series of increasingly strident reactions by the Chinese. A diplomatic protest note was delivered to the U.S. Ambassador in Peking, Mr Arthur Hummel.

In its first reaction, the U.S. issued a two-line statement saying: "We deeply regret the Chinese overreaction to the Hu Na case. Any other comment will have to come from Washington."

China's Ministry of Culture announced that the cultural ban would apply to "all remaining items of cultural exchange with the U.S." this year.

The ban will force cancellation of a U.S. film week in Peking in July.

## Chinese infanticide epidemic confirmed

BY OUR PEKING CORRESPONDENT

AN OFFICIAL survey has confirmed indications that China is experiencing an epidemic of infanticide because of its policy of limiting families to one child.

The survey has found that in some rural areas the killing of female children by people determined to have sons has created a five to one imbalance between male and female infants.

In one production brigade of about 100 families in the central province of Anhui, 40 new-born girls were drowned in 1980 and 1981.

There have been increasing numbers of reports in recent years of the killing and mutilation of female infants because of the conflict between China's tough new birth control measures and the traditional importance of male children, but there have been no detailed official figures.

The growth of the problem was indicated in last year's census, which is believed to have confirmed an excess of male over female children in every province of China.

Official concern was underlined at the National People's Congress last November when the Premier, Mr Zhao Ziyang, said: "We must protect infant girls and their mothers. The whole society should resolutely condemn the criminal activities of female infanticide and maltreatment of mothers."

Details of the recent survey, by the All-China Women's Federation, were published in the Communist Party newspaper People's Daily, with an editorial calling for firm action to deal with the problem.

The survey covered figures from the counties of Quiniod and Huaiyan between 1979 and 1981. From normal ratios in 1979, both counties had experienced a rapid increase in the preponderance of male infants to a level of more than 16 per cent.

The Women's Federation and the People's Daily both urged greater enforcement of the law against people who killed their children and greater efforts to educate the public. The federation described the state of infanticide as being caused by "the feudal ideology of treasuring boys and slighting girls."

## U.S. to speed arms deliveries to Thailand

BANGKOK — The U.S. is to speed arms deliveries to Thailand, with an airlift as one of the options, a senior U.S. State Department official said yesterday.

Mr Paul Wolfowitz, U.S. Assistant Secretary of State, who had toured parts of the border with Cambodia, said he had discussed the arms shipment with Prem Tinsulanonda, the Prime Minister.

The U.S. Thailand's prime arms supplier, staged an emergency airlift into Thailand in 1980 following a Vietnamese incursion into Thai territory.

The White House is seeking from the U.S. Congress a 9 per cent increase in the arms package to Thailand for fiscal year 1984 to \$90m plus another \$2.4m in military training funds.

Thai forces have pushed all invading Vietnamese soldiers back into Kampuchea, army agencies

Kamlang-Ek said yesterday.

He said that the Thai army had found the bodies of more than ten Vietnamese soldiers on Thai soil and seized a large number of Vietnamese weapons which would be put on public display.

● Moscow has told the ASEAN nations that Vietnam would retaliate by backing insurgent groups unless the five countries stopped opposing Hanoi's policies in the region, a Singapore commander-in-chief Arthit Kamlang-Ek said yesterday.

The warnings came from Mikhail Kapitsa, Deputy Soviet Foreign Minister, during talks with Simethamby Rajaratnam, Singapore's Deputy Prime Minister, Sopnapi Dhanabalan, Foreign Minister, and senior government officials.

## Ivory Coast's \$300m World Bank loan nears

BY PETER BLACKBURN IN ABIDJAN

THE IVORY COAST is believed to be close to agreement with the World Bank on a \$300m structural adjustment loan.

The loan is an important element in the Government's \$1.2bn external borrowing programme for 1983, would be double the size of the first structural adjustment loan made in December 1981, but would be of a similar 12-month to 15-month duration.

The Ivory Coast loan is likely to be accompanied by measures to promote export industries and low-cost housing schemes. It is unlikely, however, that there will be any provision for technical assistance as the Government is cutting down its use of high-cost foreign experts.

Meanwhile, the first tranche of a three-year SDR 484.5m extended fund facility from the IMF is due to be released shortly. In addition there is an estimated \$55m IMF reserve carried over from 1982.

The country has withdrawn temporarily from commercial markets, having borrowed massively in the late 1970s on the strength of the cocoa and coffee price boom. It continued borrowing after these markets collapsed by using its potential oil wealth as collateral.

The country's debt has caused

misgivings among bankers, especially as oil reserves are now thought to be less substantial and more expensive to exploit.

Medium-term and long-term public debt is expected to rise to \$16bn, while debt servicing is expected to jump almost a third to \$1.2bn.

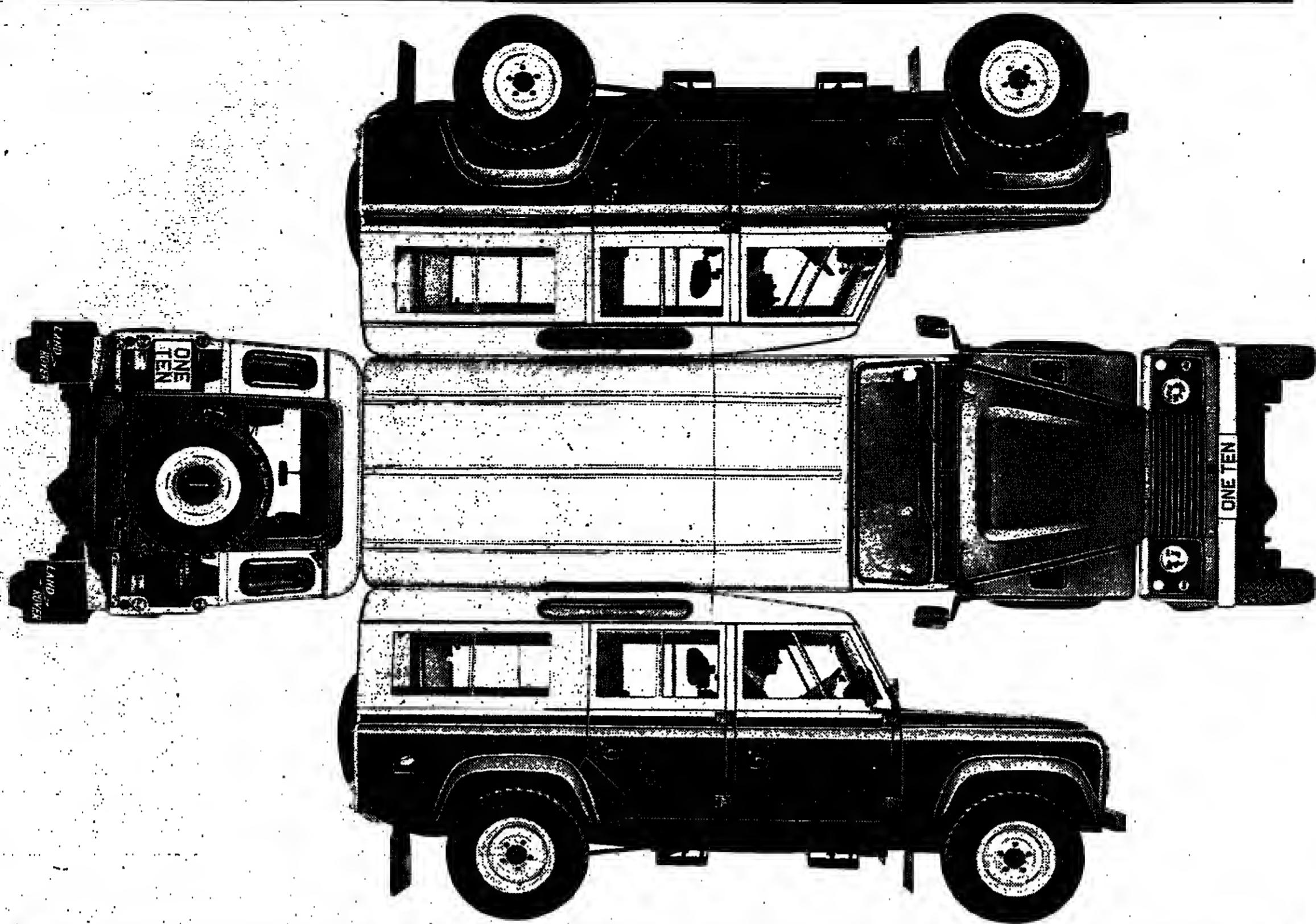
In the Ivory Coast's last venture on the international capital markets, a \$150m loan for balance of payments support arranged by Bankers Trust was closed in December 1982 nearly \$20m short.

Although the Ivory Coast's debt service is forecast to swell further in 1984, Mr Leon Naka, director-general of the Government's debt management agency, says it should stabilise by 1985.

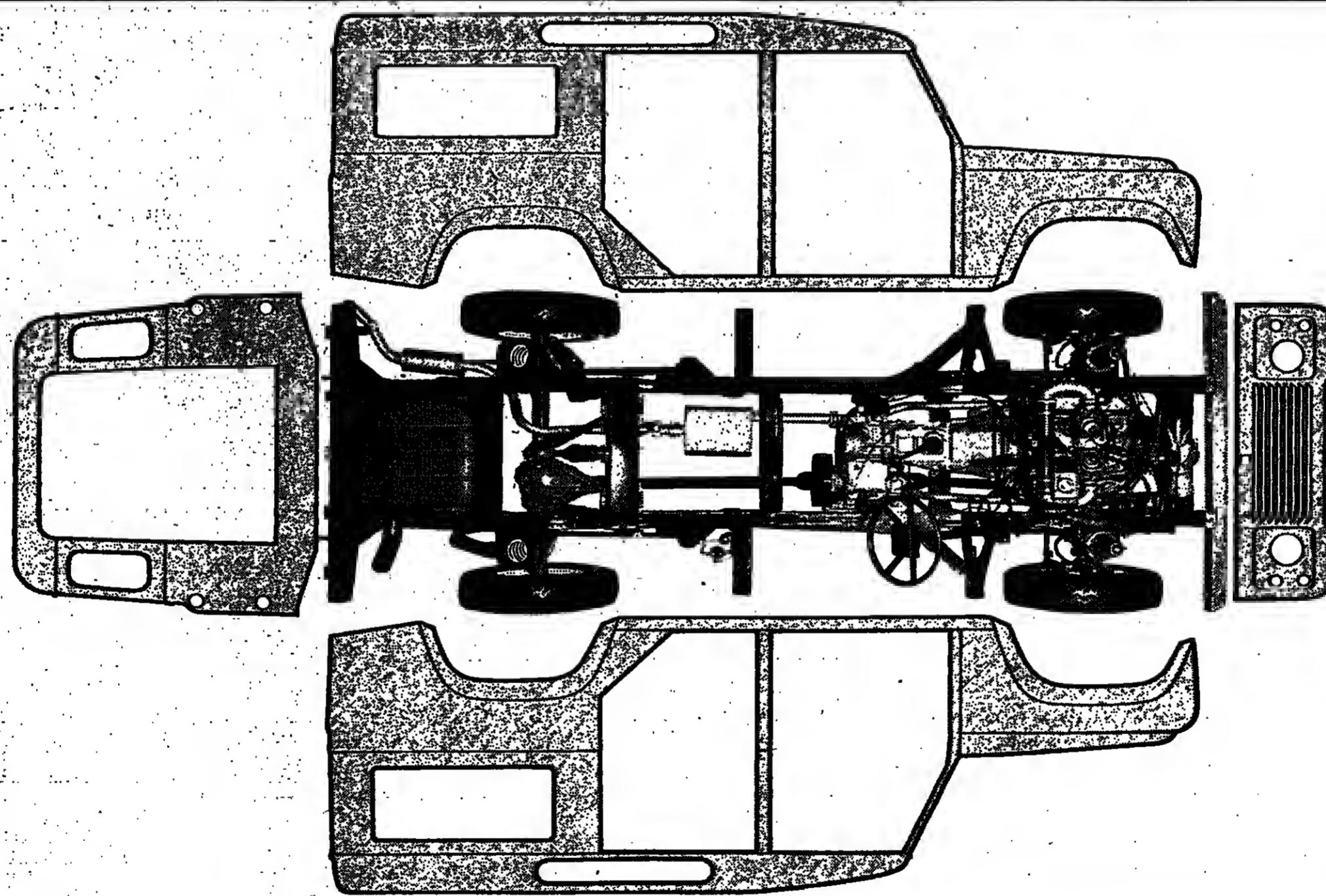
"The easing of Libor rates since mid-1982 and the recent recovery of cocoa and coffee prices together with the first signs of improvement of the U.S. economy are encouraging signs," he said.

Some bankers, however, are concerned that publicity given by the official media to bush fire damage to cocoa and coffee crops — which provide more than 50 per cent of the country's export earnings — could harm the country's credit rating while giving only a brief boost to prices.

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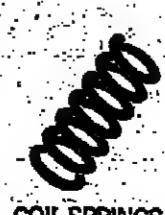
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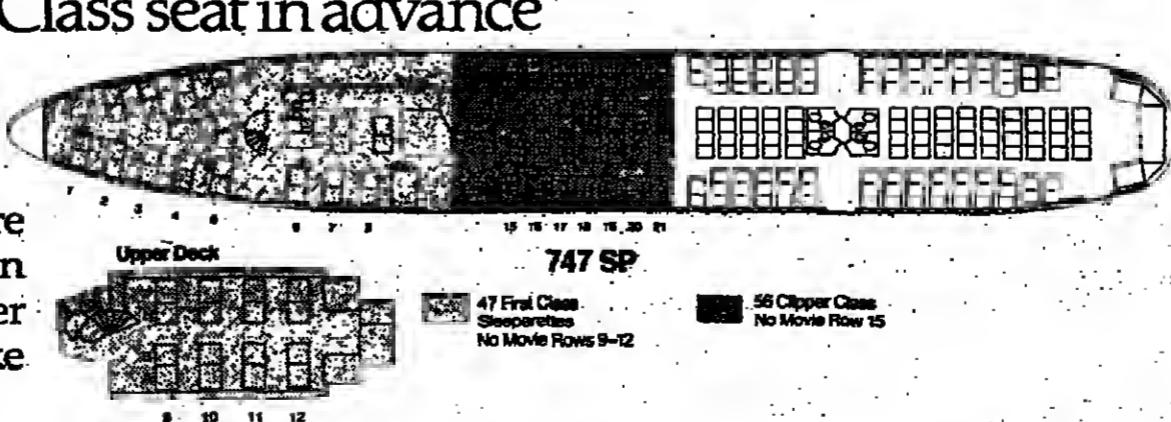
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## WORLD TRADE NEWS

## BL begins negotiations on Rover car plant for India

BY JOHN ELLIOTT, RECENTLY IN NEW DELHI

NEGOTIATIONS have started between BL and Standard Motors of Madras for production of Rover saloons in India.

Standard produced Triumph Herald till the late 1970s. It still has a licence to make about 3,400 cars a year, but at present is only producing a derivative of BL's old Standard Atlas light commercial vehicle in pick-up and van forms.

The plan is to assemble perhaps 3,000 Rover saloons a year which BL would deliver in knocked-down form from the UK. The engine would be a BL-designed 2.5 litre diesel already used by Standard in its Atlas vans.

Despite the company's name, there is no financial link between Standard and BL whose Indian manufacturing activities are based on Ashok Leyland, also of Madras. Ashok makes heavy trucks and buses.

Mr Karthik Narayanan, chairman of Standard and a former president of the Indian motors manufacturers' trade associa-

tion, is now trying to assemble a financial package for the Rover project before seeking Government approval.

The Government's current policy is to concentrate on small-car production. Japan's is to produce an 800cc range in partnership with a state-owned company in Delhi. A two-door 800cc car is also being produced in Bangalore under licence from Reliant of the UK.

At present, most cars on Indian roads are derived from Morris Oxford and Fiat 1000s of the 1950s. The Oxford, called the Ambassador and manufactured by Hindustan Motors of Calcutta, is being updated with a Vauxhall Victor body from the UK and an Isuzu engine from Japan.

The Fiat, made by Premier Automobiles of Bombay, is to be given a Seat 124 body and, possibly, a new European or Japanese engine. Premier, owned by the Walchand Group, has been the subject of take-over rumours with two diversi-

## Common policy sought by engineers

By Christian Tyler,  
World Trade Editor

COMPETITION from foreign companies in British engineering companies' home and traditional export markets has prompted their national federation to try to work out for the first time a common policy towards trade protection and industrial subsidies.

The Engineering Employers' Federation has drawn some preliminary conclusions about what its line should be from a private seminar attended by more than 70 member companies.

It suggests the industry should campaign for maximum freedom of trade and competition, put at the same time insists the UK government match official support given to its overseas rivals.

The EEF also suggests, perhaps more controversially, that industry aid should be diverted away from regional grants and towards research and development, including product and market development.

Companies may also be encouraged to report "unfair practices" by other EEC countries to the Commission in Brussels.

Retaliation against foreign protectionism and unfair trading practices is seen as counter-productive for a big exporting industry such as engineering. But the EEF suggests the industry may want to press for domestic protection to safeguard threatened technological capability "in key areas."

The federation believes that, although it is traditionally an industrial relations collective, it is better placed than, say, the Confederation of British Industry, to formulate a trade policy for UK manufacturers.

The report, presented at a seminar attended by about 300 businessmen, is based on the findings of the group's mission last month, which assessed political and economic developments in the country.

It noted "various improvements" in the internal security situation, with only pockets of guerrilla activity, the apparent stability of the Government and the dedication to economic revival by President Milton Obote, Africa's born-again pragmatist.

## MANUFACTURERS TILT OVER NEW PRODUCT

## Boeing set to pre-empt Airbus plans

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

BOEING, the U.S. jet airliner builder, is prepared to move immediately to counter any formal decision by Airbus Industrie, the European jet airliner consortium, to launch a new 150-seater project, the A-320.

Mr J. F. Sutter, executive vice-president of the Boeing Commercial Airplane Company, made it clear this week that his company was continuing its detailed research and development studies into a wide range of new airliner types, including a possible new 150-seater design of its own, called the "7 Dash 7," spending over \$10m a year on that venture alone.

Airbus Industrie is still trying to put together its plans for the A-320 150-seater, with discussions between prospective French, British, West German, Canadian, Dutch and Japanese manufacturing partners, while continuing development of its existing products, the 280-seat A-300 and 200-plus seat A-310.

It is holding talks with airlines on the project and it hopes that by the time of the Paris Air Show, in late May and early June, it will be in a position to say more about the formal launching of such a venture.

Boeing, however, views the industry's efforts calmly.

Boeing does not see any such 150-seater aircraft emerging until about 1986. Its view is that if necessary it could beat Airbus with earlier deliveries of a new derivative

of its existing twin-engined 737, that would adequately meet the airlines' immediate needs for any 150-seater, at a much lower cost.

This would be called the 737-400, which would feature a modified wing, a stretched fuselage, and the Franco-U.S. CFM-56 Dash 3 engine, and be

"boxed in" with its current range of short to medium-range transport aircraft.

The 737 is already available in the 180-plus seat category,

date because of new noise laws that come into effect in the UK on January 1, 1984, and progressively thereafter throughout Western Europe.

Any A-320 becoming available in 1988-89 would be too late to meet BA's immediate needs, whereas the 737-300 is already in service, ideally for those needs, and could eventually also be replaced by the improved 737-400 when it became available.

Boeing believes its hold on the short-range twin-engined jet market remains strong.

It regards its most formidable competitor in this market as McDonnell Douglas, whose own DC-8 Super 80 has captured significant orders in recent months.

Boeing is showing considerable interest in the proposed joint international development of a new aero-engine for short-range jets by Rolls-Royce, Pratt & Whitney, three Japanese aero-engine companies and Fiat of Italy and MTU of West Germany.

Mr Sutter said this week that so far, no one had told Boeing what the price of such an engine would be, and there were no details of it.

But it appeared to be a genuine effort by the engine makers to meet the future need for an engine in the 20,000 lbs-plus thrust class, and Boeing would consider it seriously for any eventual 737-400 or later "7 Dash 7" venture.

## Sharp increase in EEC imports hits Britain's textile industry

BY ANTHONY MORETON, TEXTILES CORRESPONDENT

A LARGE rise in imports from the EEC last year contributed substantially to a record UK textile deficit of £1.5bn in its trade in textiles and garments.

This was a 23 per cent jump over 1981 and the way in which imports of yarn, fabric, carpets and certain types of knitwear from the community had risen so strongly was "particularly worrying" according to the British Textile Confederation.

This rise had occurred despite a 4 per cent fall in consumption of textile products.

"The effect of the rising trend of imports from the EEC is exacerbated by the disappointing performance there of our exports in recent years," the BTC said yesterday in its annual review of the import trade.

"The UK is not unusual in having a high volume of imports

from other Community countries, but it is unusual in the low share of their markets taken by its exports."

The report goes out of its way, though, to distance itself from the criticisms made by Far Eastern suppliers that it is the rise in imports from high-cost European suppliers which is solely to blame for Britain's problems.

While admitting the rise it claims that "the majority of products where the EEC is a major supplier differ from those most subject to low-cost competition. Where the two overlap, EEC imports are mostly of finished cloth."

Total imports rose 1 per cent by volume last year, there being strong growth from Mediterranean countries such as Portugal, Turkey, Malta, Cyprus and Tunisia, as well as the Lomé group of countries. The most notable drop in overseas goods

was from the U.S. and the low-cost producers.

Hopes in the textile trade that there might have been some recovery towards the end of the year have been dashed by statistics which show a particularly adverse trend in the last quarter of the year, imports being up 2 per cent and exports down 11 per cent, both by volume.

The BTC lays much of the blame for the disappointing performance at the door of an overvalued exchange rate, at least until the sharp fall in the value of sterling in November and further de-stocking.

The result has been a further strengthening of imports in the UK. By comparison with 1979, when they accounted for 53 per cent of final consumption weights, they had risen to 64 per cent last year.

Textile and Clothing Imports in 1982, British Textile Confederation, £25 to non-members.

## Exports to Uganda 'set to rise'

BY STEPHANIE GRAY

BRITISH EXPORTS to Uganda could easily double to £60m a year over the next three years, according to a report launched yesterday by the British Overseas Trade Board's (BOTB) Tropical Africa Advisory Group.

The report, presented at a seminar attended by about 300 businessmen, is based on the findings of the group's mission last month, which assessed political and economic developments in the country.

In the past two years, Uganda has returned to self-sufficiency in food, coffee production has risen 50 per cent, cotton by more than 100 per cent and from a small base, tea production doubled, the report said.

The rescheduling of \$574m in external debt and the implementation of International Monetary Fund prescriptions had paved the way for foreign grants and credits amounting to \$450m that is to be disbursed by the end of next year. While

disbursement was slow, the aid provided excellent opportunities for British exporters.

Further, the report said the rescheduling agreements should clear the way for the resumption by the Export Credits Guarantee Department of medium-term cover after years in which it has been only short-term.

The report also emphasized the substantial opportunities for British consultants and contractors in President Obote's 1982-84 recovery programme.

The \$78.5m programme is to be funded through increased exports, IMF credits and other grants and loans, and is aimed at a steady revitalisation of industrial activity.

## Chinese boost for Poland

By Christopher Bobinski  
in Warsaw

POLAND's hard-pressed consumers are to benefit from China's policy of stepping up trade with Eastern Europe.

A recent additional trade protocol to last January's agreement for this year means trade turnover in 1983 denominated in Swiss francs, will be worth SwFr 580m (£118m), double last year's SwFr 264m turnover.

The additional protocol includes provision for Chinese trade credits, worth around SwFr 94m, to be worth to Poland for free credits to ease the economic situation.

Chinese goods to be imported under the agreement involve mainly consumer goods such as rice, meat, tea, clothing and rubber goods.

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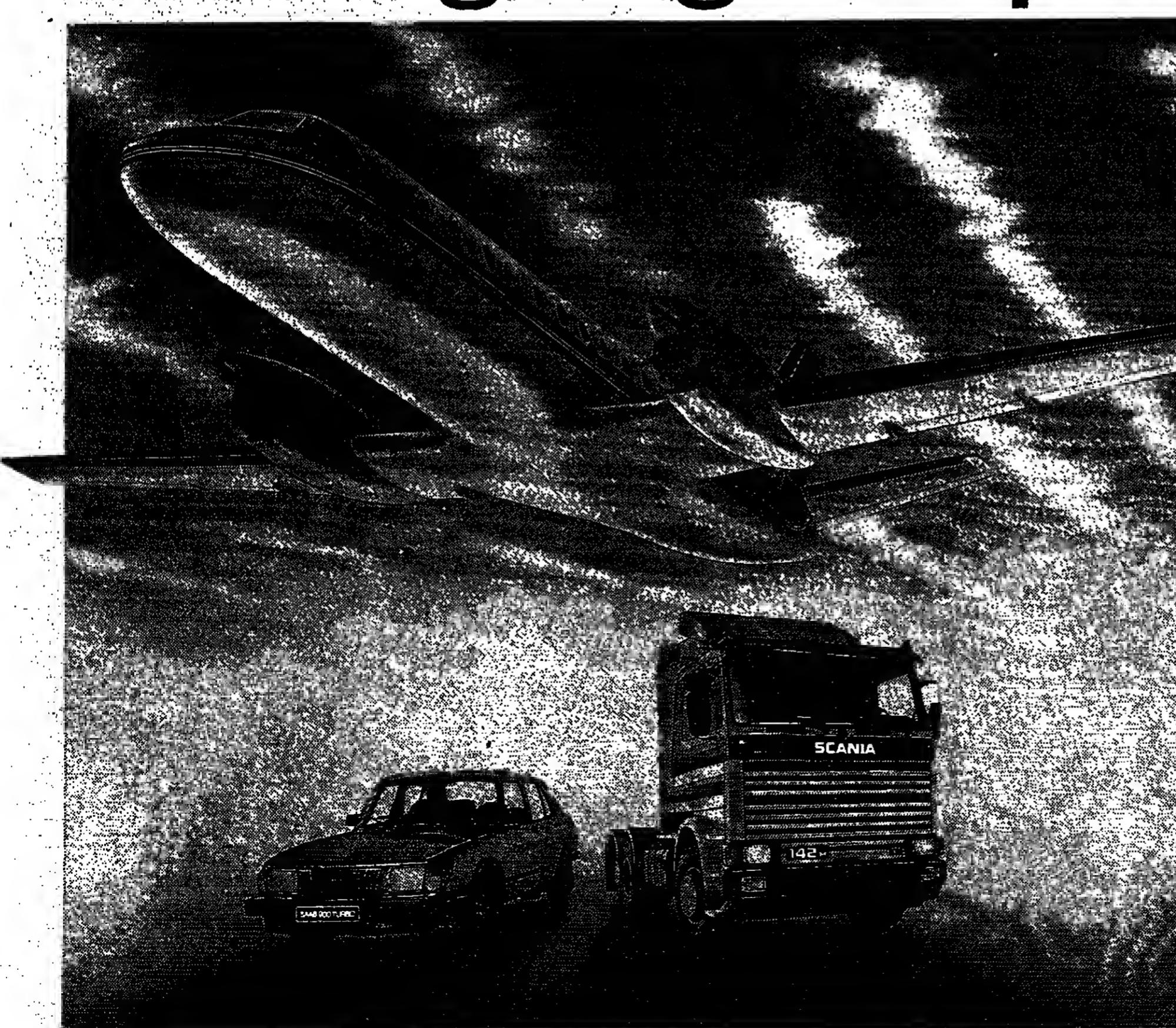
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## AMERICAN NEWS

## Concern over U.S. Central America role

BY REGINALD DALE, U.S. EDITOR, IN WASHINGTON

CONCERN IS mounting rapidly, both inside and outside the Reagan Administration, over covert U.S. involvement in Central America, which is fast becoming a major political issue in Washington.

The State Department was yesterday reported to have raised questions with the White House at the highest levels last week about the legality of U.S. backing for right-wing rebels fighting the Sandinista Government of Nicaragua from bases in Honduras - in a war that was hitherto relatively obscure to most Americans, but which has

now become the centre of a blaze of publicity in the U.S. media.

Under an amendment to an appropriations bill passed by Congress last December, the Administration is barred from taking any action for the purpose of overthrowing the Government of Nicaragua.

A number of senators have recently protested even more vigorously that the law is in danger of being broken.

Official U.S. policy is to block supplies from Nicaragua to the left-wing guerrillas fighting the U.S.-backed Government of El Salvador

and attack the "Cuban infrastructure" in Nicaragua, as well as generally harass the Government. The right-wing guerrillas, however, now claim to control significant areas of Nicaragua territory and to be able to engage the Nicaraguan army in battalion strength.

Their effort began to gather strength in early 1982, about the same time that the Reagan Administration approved \$10m in covert aid for their operations. While they represent a number of different factions, a fair amount of their hardcore fighters are former members

of the feared National Guard of the late Nicaraguan dictator Anastasio Somoza, overthrown in 1979.

The suspicion among Latin American analysts in Washington is that the Administration is hoping that the guerrillas will make sufficient gains against the left-wing government to produce a mirror image of the situation in El Salvador, where left-wing guerrillas are fighting a right-wing Government. That is felt, might produce the basis for a more widely negotiated political solution that would get the El Salvador Government off the hook.

The Nicaraguan guerrillas are beginning to become aware that they are being used by Washington, and now want an expression of open U.S. support. They fear that covert support may easily be quietly withdrawn once Washington feels that its purpose has been achieved.

The concern in some circles in Washington is that, given the guerrillas' growing strength, it will become increasingly difficult to maintain the fiction that they are not fighting to overthrow the Government, which they avowedly are.

A 0.2 per cent rise in March has taken inflation over the past 12 months to 2 record 90.9 per cent and is threatening to move into three figures by the end of the year.

Government officials say the main reason for this year's jump in the cost of living, which took inflation to 77.5 per cent in the first three months, is the sharp rise in food prices following floods and avalanches in the countryside.

The opposition blames soaring inflation on the crawling peg,

which has devalued the sol

against the dollar by just over 25 per cent since the beginning of the year, as well as monthly increases in the price of petrol, petroleum by-products, electricity and the gradual elimination of subsidies on basic foods.

Target figures contained in the programme are a reduction of the payments deficit to \$340m this year

from \$360m in 1982 from \$390m in

1983.

The central government borrowing requirement is to be cut to 2 per cent of gross domestic product (GDP) this year and 1 per cent in

1984 from nine per cent in 1982.

Uruguayan Central Bank officials said yesterday.

If Uruguay can meet the targets

for its balance of payments, it

will be able to avoid additional borrowing from international banks before 1985. Economic growth is ex-

pected to be restored to between 1

## Salvador guerrilla leader assassinated in Managua

BY TIM COONE IN MANAGUA

A PROMINENT LEADER of the Salvadorean opposition and guerrilla movement the FDR-FMLN, known as Comandante Anna-Maria, was assassinated in the Nicaraguan capital in the early hours of Wednesday morning.

Her real name was Melida Anaya Montes, a 38-year old teacher, who in 1980 became the second-in-command of one of the main guerrilla organisations of the FMLN, the Popular Liberation Forces (FPL). She had been a key figure in one of the main teachers' unions in El Sal-

vador for 17 years, but because of her political activity and the increasing repression in El Salvador went underground in 1978.

She made frequent trips abroad, organising political work overseas and representing the FDR-FMLN in various political forums, and kept a high public profile outside El Salvador.

She was apparently visiting Nicaragua in connection with this political work when she was killed. Nicaragua's Interior Ministry has stated that as yet the identity of her assailants is not

known but they are making efforts to track them down.

The FMLN, in a statement published in one of Nicaragua's daily papers yesterday, claims her murder was the work of the U.S. Central Intelligence Agency (CIA). El Salvadorean exiles in

Managua say the murder was politically motivated and professionally carried out and will be a major blow to the guerrillas.

They also fear that her death may be used by opponents of the Nicaraguan Government to try to implicate Nicaragua in the guerrilla war in El Salvador.

Mr Clarence Long, a Maryland Democrat and chairman of the House Foreign Operations Appropriations Subcommittee, said he told Mr Shultz that a high-ranking negotiator should be named to bring about peace talks between El Salvador's Govern-

ment and the guerrillas which are fighting it.

El Salvador should also declare an amnesty for all political prisoners, he said. "Right now, if we put this (approval of the \$60m) before the subcommittee without any of these things being met, I think without any question it would lose," Mr Long told reporters.

He added that Mr Shultz had promised to consider the new conditions. The Administration has said that El Salvador needs about \$50m worth of ammunition and spare parts quickly.

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will be able to avoid additional borrowing from international banks before 1985. Economic growth is ex-

pected to be restored to between 1

and 2 per cent this year after a fall in real output of 8 per cent last year.

Uruguay's creditor banks are now

considering the terms of the pro-

posed refinancing package which

has been agreed with an advisory

group of leading creditors chaired

by Citibank and including Lloyds

Bank International of the UK.

The package provides for:

• Refinancing over six years, with

two years' grace before repayments

begin, of 90 per cent of the \$760m in

public sector debt falling due this

year and next.

This gives an

amount to be rescheduled of \$760m

on which a margin of 2% per cent

over Eurodollar rates or 2% per cent

over U.S. prime will be paid.

• A fresh loan of \$240m over six

years at the same margins as the

rescheduling.

• The rolling over of short-term

public sector debt amounting to

\$120m for one year starting in Ju-

ly.

Uruguay's total public sector debt

is estimated at about \$2.7bn. Its net

reserves had fallen to \$200m at the

end of last year and could drop

slightly again during 1983.

## Uruguay asks banks for loan approval to meet IMF date

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

URUGUAY'S 75 creditor banks have

been asked to approve a \$350m re-

scheduling and new loan package in

time to allow the International

Monetary Fund (IMF) to endorse

the country's economic programme

before the end of the month.

Under the IMF programme, Urugu-

ay stands to receive a \$100m stand-

by credit for two years in return

for policies designed to cut its

public sector borrowing require-

ment and reduce its current ac-

count balance of payments deficit.

Target figures contained in the

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## THE PROPERTY MARKET BY MICHAEL CASSELL

## Continuing saga of South Bank blight

IPC MAGAZINES has failed in its bid to find a tenant for its London headquarters on the south bank of the Thames at King's Reach and will not be moving back across the river.

The failure to locate any takers for the 248,000 sq ft building, together with one or two other events revealed this week, starkly underlines the plight of the south bank property market which currently radiates all the charisma (and none of the cash) of a funeral parlour on a turnover rent.

Its future always seemingly the subject of incessant, infuriating and inconclusive debate, the present weakness of London property markets has served only to create new confusions and uncertainties over prospects for the waterside wedge of land which weaves its way west from Pickle Herring Street past Lambeth Palace.

At a Press conference called this week to announce the GLC's acquisition of the Courage bottling plant site close to Southwark Bridge, George Nicholson, vice-chairman of the council's planning committee, laid the blame for the south bank fiasco firmly at the feet of private enterprise.

Mr Nicholson, who loves estate agents and developers as much as they love him, said the private sector was responsible for the blight which had infected the Thames' south bank. They had, he charged, pursued endless and unwanted office schemes at the expense of the local community and winning permission for projects which they could no longer

finance.

Scant mention was made of planning regimes which sometimes appear to have changed direction more often than the Thames' tide itself or of a determination to insist on schemes whose undoubted social benefits are invariably equalled by their financial naivety.

There is also the little question of rates and in this respect Southwark has no challengers.

Figures released by agents Don and Wright show that Southwark office rates now stand at £16.25 a sq ft, the highest of any inner London borough. When combined with average rents of £11 a sq ft, Southwark office overheads rank third behind the City and Westminster and in the last year alone have risen by nearly 18 per cent.

## Victim

But whoever wins the propaganda war, both sides should at least admit that the ultimate victim is the south bank itself. The string of empty sites and derelict buildings form a suitable backdrop to what has become an unpleasant political battleground.

Mr Nicholson is certainly correct in suggesting that there is now a substantial oversupply of office space in London (the debate on the true extent of that surplus could fill this column until the day Cain Street is tapped out) and however the south bank shapes up in the longer-term, tenants for the space which already exists certainly seem to be a rare

## commodity.

For over a year, IPC has been attempting to recruit someone to take over its 95-year lease on which the initial, concessionary rent of £6 a sq ft is now the subject of a disputed rent review. With the help of Debenham, Tewson and Chinocks, three or four serious candidates came forward but all backed off.

IPC has decided there is no point in going on but says it might now try to find tenants for some of the surplus, individual floors, each offering up to 8,000 sq ft of office accommodation.

Just across the road from IPC stands Dorset House, purchased and refurbished by Canadian Dutch Properties, the Wereldhavencamp International joint venture. The 89,000 sq ft building, previously home for part of the IPC empire and owned by MECB, has been waiting for an occupier since last summer.

The building has been modernised well but although a deal at about £12.50 a sq ft was recently very close to signing, it is now available again. A new letting campaign by Debenham, Tewson and Jones Lang Wootton is about to get underway and the asking rent will be £990,000, about £1 a sq ft.

The result of the Courage bottling plant sale is itself indicative of the south bank's problems. The brewing group, together with Savills, set out with their sights set on raising over £6m for the 7.5 acre chunk of land close to Southwark Bridge.

The Land came with planning permission for 106,000 sq ft of offices, though that expires in August. In the event, several interested parties came forward but most were only prepared to buy with planning consents for their particular proposals.

## Consents

In this part of the world, such consents do not come easily, so how appropriate that the two relevant planning authorities — Southwark is to help the GLC in developing housing and industrial premises on the site — should turn out to be involved in the purchase. At a sale price of £2.4m, the GLC is well pleased and can ponder over how effective its development policy was in frightening off competition from other potential purchasers.

At least one major office scheme has finally won through, however, and the building concerned already exists. It is the Sea Containers complex on the southern end of Blackfriars Bridge, originally built as a hotel but left in the wake of the developers' desire for a large, empty shell until Mr Heseltine last year gave the go-ahead for conversion to offices.

Project managers APC International have just bid for a deal to compete to find the best answer to the huge conversion project and contractor will be appointed in the summer. The 220m scheme should be complete by the autumn of 1985 and — apart from the back

block already largely occupied by Sea Containers — will provide around 300,000 sq ft of new office space.

Success in finding tenants for a building with an unbeatable outlook but a dodgy address could work wonders for the local market and have a direct bearing on the success of the string of other major schemes following in the pipeline. Failure could leave Mr Nicholson's public sector solution (given the money) the only feasible alternative.

**HILLIER PARKER** SIGNALS the "end of an era" in a review of shopping developments, noting that while 22 comprehensive schemes of 150,000 sq ft gross and over opened last year, total floor-space of 2.375m sq ft was the lowest for any year since 1968.

The average size of scheme, 122,000 sq ft last year, has not fallen each year since 1977. There are now 15 comprehensive schemes of over 500,000 sq ft in Britain but none of this size currently under construction or with planning consent.

• Phoenix Properties and Finance has completed the sale of the first half of its Swindon development to the Prudential Assurance Co. for £1.6m. The site, which is in the centre of the town, has permission for a total of 168,000 sq ft of office accommodation. It is Phoenix's intention to develop the remaining 54,000 sq ft in due course.

## Hong Kong OK for KFR

THEKES IS life after Margaret Thatcher, says F. Y. Kan, in London on a visit from a maligned government estate management arm, are proceeding apace — and relatively unaffected by the oversupply in central London property markets, according to PSA chief Montague Alfred.

Quite painlessly, from its own point of view, the PSA has made a hefty contribution to central London supply over the past three years. From April 1979 until the end of last year it had managed a reduction in its London HQ space from 22m sq ft to 19.6m sq ft, leaving a further decrease to 18m sq ft to be achieved in the three years to December 1985.

Meanwhile, KFR's tasks have improved both the volume and market share of its business in the past three months, compared to the average level his own firm was able to achieve last year.

Business volume, he reckons, is 48 per cent up over the 1982 average. On market forces alone he thinks he would have done 18 to 15 per cent better, the balance, implicitly, being market share improvement.

• Investment in a big way is still being withheld," he says, but he sees a flight of real estate money from Hong Kong. "It is hard to get money out of properties owned in Hong Kong," he notes wryly. "People aren't liquid."

## Mr. Alfred's broom keeps on sweeping

HEADQUARTERS office disposals by the Property Services Agency, the much-maligned government estate management arm, are proceeding apace — and relatively unaffected by the oversupply in central London property markets, according to PSA chief Montague Alfred.

The latest information emerged on the publication of occasional PSA annual report for 1981-82. The last one was for 1979-80. The report, glossy, well-organised and almost corporate in its structure, may be seen as a foretaste of things to come.

Alfred is still keen on living off part of the PSA's work as a belated, and until now, occasional PSA annual report for 1981-82. The last one was for 1979-80. The report, glossy, well-organised and almost corporate in its structure, may be seen as a foretaste of things to come.

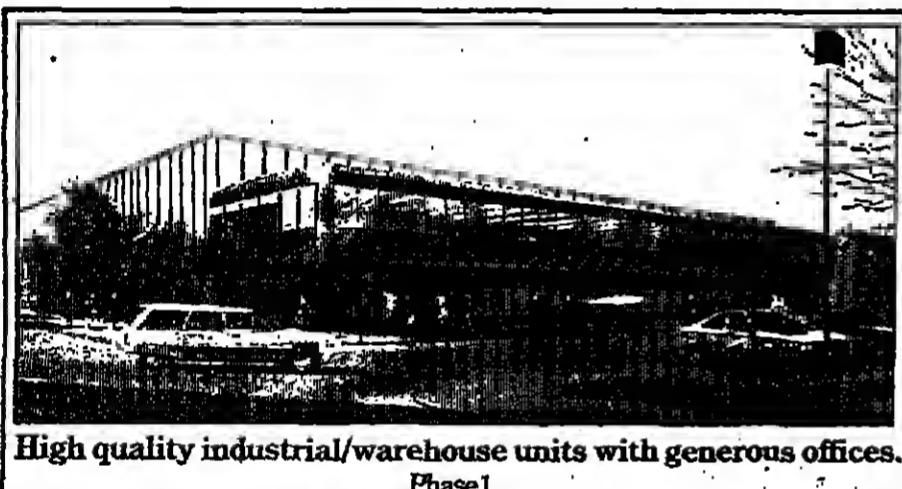
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He is clearly dubious, however, about economics of scale, observing that people tend to ignore the diseconomies when they do the initial sums. "In the 1950s and 60s," he remarked, "it was fashionable to add two and two and get five; since the 1970s there has been the suspicion that 2 plus 2 might equal 3."

WILLIAM COCHRANE

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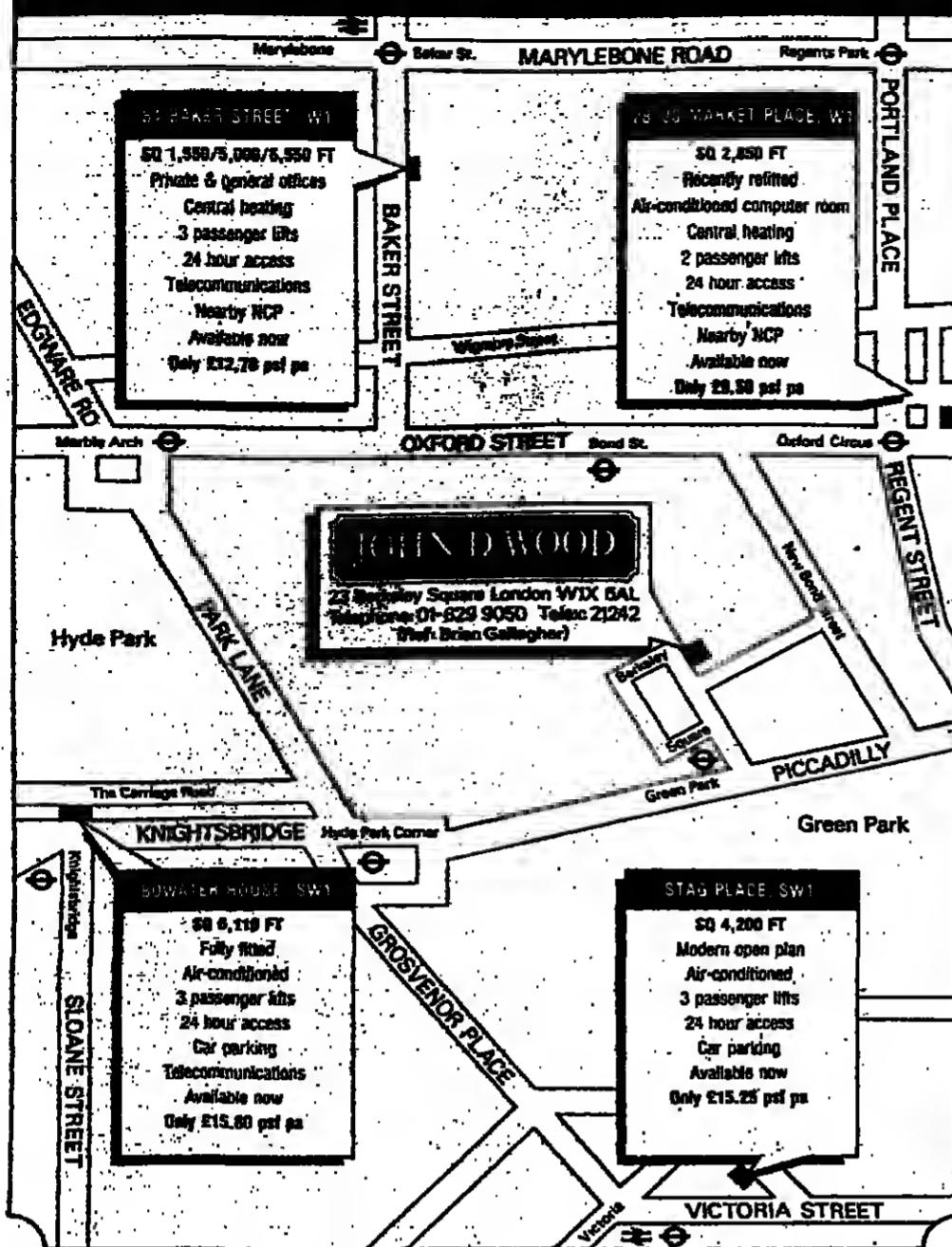
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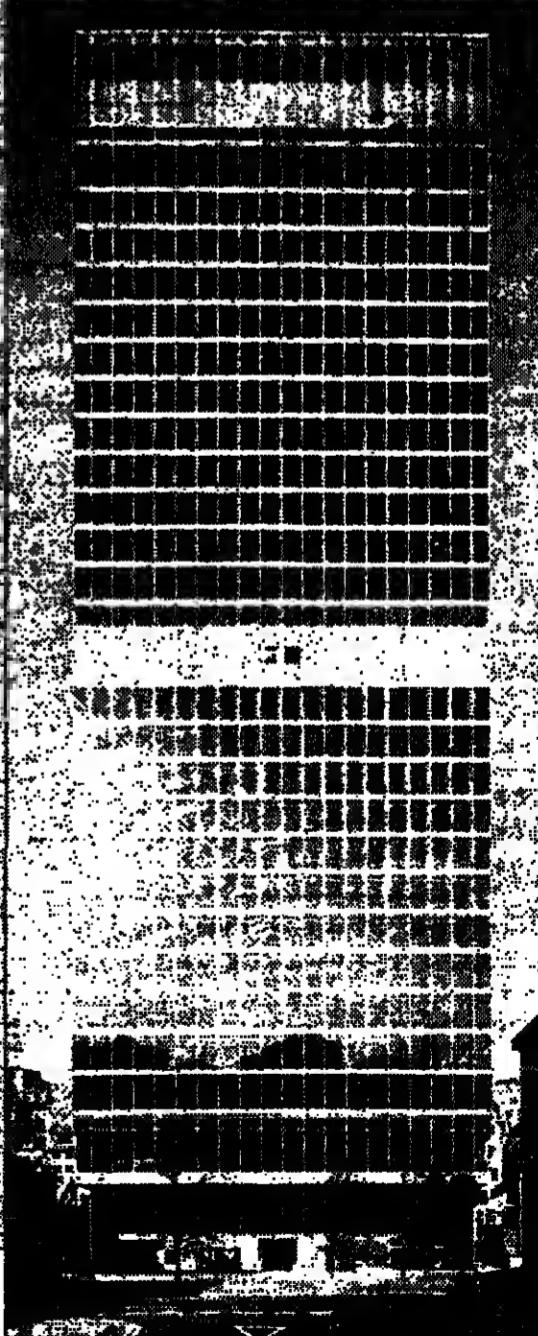
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## THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

## Hill Samuel: the revival of a merchant bank

Alan Friedman analyses the wide-ranging shake-up which has given fresh impetus to the financial services group

HILL SAMUEL could well prove to be one of the better textbooks examples of the power of positive management. The last time this merchant bank was written about on these pages (in 1979) the reader would have had little trouble in picking out phrases such as "unhappy ship," "chequered history" and "dismal profit record."

Yet, today, Hill Samuel is seen by many as one of the great "turnaround" stories of the City. Not only did the group get off its profits plateau in the year which ended in March 1981, but it managed to double its disclosed after-tax profits in two years, from £7.7m in 1979-80 to £15.9m in 1981-82.

Much of the credit for Hill Samuel's revival goes to the group's youthful chief executive, Christopher Castlemann. At the age of 39, he took over management of the group in 1980, having spent several years successfully turning round the Australian and South African businesses.

He faced a formidable challenge, not least because the Hill Samuel group is unlike most other merchant banks. It is not merely a bank, but also an insurance broker, a shipping services company, an employee benefits business and a life insurance and investment management company. Each division has had its problems, some of them quite severe.

In 1980 Hill Samuel was emerging from a disastrous decade. It started in 1970 when institutional investors blocked a planned merger with Metropolitan Estate and Property Corporation, a scheme recommended by the board under the then-chairman Sir Kenneth Keith.

In 1973 the institutions balked again and succeeded in calling off at the last minute a planned merger with Slater Walker Securities, just before it fell victim to the secondary banking crisis. In 1974 Hill Samuel lost £21m as a result of an abortive spot foreign exchange deal with the collapsed Frankfurt bank, LD Herstatt. In the end the net write-off was £1m.

The late 1970s saw a variety of management upheavals including the resignation in 1978 of John Elton, the chief executive of the insurance bank, the departure of Lord Keith in 1980, as well as several insurance broking executives and finally the elevation of



Sir Robert Clark: refers to the group's problems as "puddles into which we trod in the late 1970s"

MEPC plans of the 1970s, was also called off amid the glare of embarrassing publicity.

Enter Christopher Castlemann. In his usual self-effacing way he now says that on arriving he found "a group which was poised for recovery, but without what I would describe as confidence."

Outside observers go further. One analyst puts it this way: "Castlemann came in and rolled up his sleeves. He got into the engine rooms of banking, shipping, broking, employee benefits and he preached the gospel of cost control and profitability."

It would be misleading to suggest that Castlemann single-handedly breathed life into the ill-fated Hill Samuel of the 1970s. Sir Robert, as chief executive until 1980, set many of the corrective measures in motion so that when he arrived, Castlemann did not need to do everything.

It was Sir Robert, after all, who hired Richard Lloyd, the Williams and Glyn's executive who joined Hill Samuel in 1978 and took over as chief executive of the bank in 1980. Sir Robert also brought in Richard Shaw, the chief executive of insurance broking, who arrived in 1980.

Insiders and outsiders alike often refer to the new incentives Castlemann introduced in order to boost morale and motivate executives.

## Incentives

The top 25 executives have a profit-sharing scheme which is based on the cumulative increase over inflation of group earnings for the 1982-83 period. They have options to take 20 per cent of their incentive money in 1984, 20 per cent again in 1985 and 60 per cent in 1986—or they may wait until 1988.

Excluding these incentives, Castlemann reckons the top 25 executives cost the group £1.5m a year.

Divisional autonomy is another key policy at Castlemann's Hill Samuel. There is a 12-member executive committee, which includes the heads of the various divisions, the chief executive and finance director. But Castlemann makes very clear that he expects initiatives to come from divisions. He sees himself as a catalyst rather than a headmaster.

## WHERE THE PROFIT COMES FROM

DISCLOSED PROFIT AFTER TAX	1982*	1981	1980	1979	1978
Merchant banking	£14m*	£2.5m	£0.9m	£0.0m	£0.0m
Life and investment management	n/a	£2.3m	£1.5m	£1.5m	£1.2m
Employee benefit services	n/a	£0.6m	£0.6m	£0.6m	£0.6m
Insurance broking	£0.6m	£0.6m	£0.6m	£0.6m	£0.6m
Shipping services	£1.5m-Cm	£0.7m	£0.7m	£0.7m	£0.7m
Underwriting agencies	n/a	£0.6m	£0.6m	£0.6m	£0.6m
Central costs including interest	n/a	£0.6m	£0.6m	£0.6m	£0.6m
	£18.13m*	£5.9m	£1.2m	£0.0m	£0.0m

\* Estimates.

Just the same, he continues to emphasise cost control and profitability: "We are now achieving reasonable profits in some areas, but there is no way I would take the view that the maximum profit potential is being extracted from the group."

When it comes to overheads, he is unafraid to admit: "When I first came here I wondered why we needed three telephonists when two could handle the switchboards."

One of Castlemann's initial tasks was to take a look at the undercapitalised Hill Samuel life business. In 1977, before his arrival as chief executive, the bank had injected £4m into the life company through an internal property transaction. Last

the life company sold its 47 per cent stake in The English Assurance Company to General Accident. This stake had been transferred in 1981 from Noble Lowndes, the group's employee benefits division, to HS Life.

Castlemann looked at the problem-ridden shipping business and decided that "management changes were deemed to be in order." First it "cut back bloody hard" and then he organised the 1982 £12.4m acquisition of the 75 per cent of Wallem and Co, the Hong Kong shipping management concern not already owned by Hill Samuel.

Wallem's shipping services business is somewhat counter-cyclical to the depressed shipping market and it will therefore be making a useful contribution for the year just ended. It will constitute the bulk of the 1982-83 results. The 1982-83 results will be announced in two months and City estimates range between £18m and £19m (after-tax), against last year's £16m. Having doubled profits in the past few years it will be difficult to keep up the momentum. The idea is to extract more earnings from the present group, or as Castlemann phrases it: "We need to keep these guys moving forward."

## Provisions

Some 25 per cent of banking profits come from Australia and South Africa.

The bank is likely to make 1982 bad debt provisions of around £5m, which represents 0.3 per cent of its £15.5m in outstanding loans. The bank is now moving into some new areas such as the marketing of its own electronic banking systems.

Castlemann's strategy for the 1980s is to "do what we are doing better and more profitably." He envisages some acquisitions, but only in areas which are related to the group's present products.

The 1982-83 results will be announced in two months and City estimates range between £18m and £19m (after-tax), against last year's £16m. Having doubled profits in the past few years it will be difficult to keep up the momentum. The idea is to extract more earnings from the present group, or as Castlemann phrases it: "We need to keep these guys moving forward."

## The man at the helm

Christopher Castlemann (right) has many fans in the banking community. His followers are the stockbrokers... and bankers who point to Hill Samuel's turnaround over the past three years and credit the man at the helm.

At the age of 39, in 1980, he became the youngest chief executive of a major merchant bank. But his endeavours to accentuate, in the words of one observer, "profits and profits and profits" is what has really won him favour both within and without Hill Samuel.

Castlemann, an Old Etonian, moved straight into the Hill Samuel group in 1963 following his graduation from Clare College, Cambridge, with a first in law. He joined the present group through M. Samuel & Co., which merged with Philip Hill Holdings, Erithers Limited in 1965.

It was in the 1970s that Castlemann established his reputation in Australia and South Africa. He was appointed general manager of Hill Samuel Australia in 1978 and was at the helm in Sydney during the Australian stock market's boom in 1979-80.

One gushing stockbroker's report refers to the "spectacular results" he achieved in Australia.

There he selected the executives who would create Hill Samuel's retail Cash Management Trust business. Launched in 1980 it now has £380m of managed funds and around 40 per cent of the market share.



Trevor Humphries

In the 1970s, New York, I would say it is top of the second division of accepting houses, but looking like a promotion candidate.

Castlemann himself is not only self-effacing, but considered somewhat bland by some colleagues. He is married with two children, lives in Islington, drives himself to work in his yellow Triumph Stag and drinks sparingly.

He is a sportsman, playing cricket, and squash occasionally. He is not at all a snappy dresser and shies away from Savile Row suits.

Some colleagues view him as having been too obsessed with detail. "He was good in the engine room of Hill Samuel, but we have yet to see whether he is as good with his eyes on the horizon," comments one colleague.

One veteran Hill Samuel-watcher puts it this way: "He has tightened the thing up considerably. The accent has been on profitability and cost control. The bank had an increasingly poor reputation

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## THE SCOTTISH AMERICAN INVESTMENT COMPANY PLC.

## CONSOLIDATED 4% (FORMERLY 3 1/2%) DEBENTURE STOCK

Notice is hereby given that a Petition has been presented to the Court of Session by THE SCOTTISH AMERICAN INVESTMENT COMPANY PLC ("the Company") a Company incorporated under the Companies Acts 1963 and 1980, re-registered as a public limited company on 31st August 1981 and having its registered office at 25 Charlotte Square, Edinburgh EH2 4EL, and their Lordships Inter alia (1) to appoint the Company to summon and hold a meeting of the holders of its Consolidated 4% (formerly 3 1/2%) Debenture Stock for the purpose of considering and, if so resolved, approving, with or without modification, a Scheme of Arrangement between the Company and the Royal Bank of Scotland, the holders of its Consolidated 4% (formerly 3 1/2%) Debenture Stock, printed in the Appendix to the said Petition and (2) to pronounce an Order sanctioning the said Scheme of Arrangement.

In said Petition by Interlocutor dated the 6th day of April 1983, the Court of Session has ordered a meeting to be convened of the holders of the said Consolidated 4% (formerly 3 1/2%) Debenture Stock for the purpose of considering and, if so resolved, approving, with or without modification, the said Scheme of Arrangement and has authorised the Directors of the Company to fix the day, hour and place of the said meeting.

As a result of the said Interlocutor, the Court has issued a Writ of Summons to the Royal Bank of Scotland, the holders of the said Consolidated 4% (formerly 3 1/2%) Debenture Stock of the Company, to attend the said meeting on the 3rd day of May 1983 at 11 a.m. at which place and time all the holders of the said Consolidated 4% (formerly 3 1/2%) Debenture Stock of the Company are requested to attend.

At the said meeting the following Resolution will be proposed:

"That the Scheme of Arrangement dated the 11th day of April 1983 between the Company and the Royal Bank of Scotland, the holders of the said Consolidated 4% (formerly 3 1/2%) Debenture Stock of the Company, of which a copy is annexed hereto, be and is hereby approved, with or without modification, by the said holders of the said Consolidated 4% (formerly 3 1/2%) Debenture Stock of the Company and the Royal Bank of Scotland, the holders of the said Consolidated 4% (formerly 3 1/2%) Debenture Stock of the Company, and that the Royal Bank of Scotland, the holders of the said Consolidated 4% (formerly 3 1/2%) Debenture Stock of the Company, be and are hereby authorised to take and to incur in all steps necessary for carrying the same into effect."

A copy of the said Scheme of Arrangement and a copy of the Explanatory Statement explaining the effect of the said Scheme and containing the explanatory notes to the said Scheme, dated 12th April 1983 may be obtained by any holder of the said Consolidated 4% (formerly 3 1/2%) Debenture Stock upon application to the offices of Dundas & Wilson, C.S. 25 Charlotte Square, Edinburgh EH2 4EZ or Laurence Phu & Co, Basildon House, M. Mongalls, London EC2 and may be seen at these offices during office hours.

A Stockholder entitled to attend and vote at the said Meeting may vote in person thereto or may appoint another person or persons, who need not be a Stockholder, as his proxy to attend and vote in his stead.

In the case of a holder of the said Consolidated 4% (formerly 3 1/2%) Debenture Stock who is a joint holder, he may appoint another joint holder and for this purpose seniority will be determined by the order in which the names stand in the Register of Stockholders.

To be valid, forms appointing proxies must be signed in accordance with the Instrument of Government. The Royal Bank of Scotland, the Royal Bank of Scotland, P.O. Box 27, 34 Fetter Row, Edinburgh EH2 6UJ, not later than 48 hours before the time appointed for the said Meeting.

The Court has authorised the Chairman of the Company whom failing any other direction of the Court, to call the meeting and direct such Chairman to report the result thereof to the Court. The said Scheme of Arrangement will be subject to the sanction of the Court.

Dundas & Wilson, C.S.

25 Charlotte Square,

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# FINANCIAL TIMES

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Friday April 8 1983

## A Brazilian warning

RIOTS in the streets of São Paulo this week are a reminder that Brazil's economic and social problems continue in spite of the recent rescheduling of its external debt of \$30bn (£16bn). If anything, the wonder is that trouble has not broken out before, given the extremes of poverty and an urban unemployment rate closer to 20 per cent than to the officially admitted 5 per cent.

Unemployment and the high cost of living brought the demonstrators on to the streets, but that may not have been the full story. According to one reading, left-wing groups fomented the riots because they were dissatisfied with the moderation of the local Governor, Sr Franco Montoro, himself in opposition to the military regime in Brasilia. According to another, hard liners in the military regime might have seen advantage in what happened: open disorder in the streets gives them an argument against the process of liberalisation pursued by Gen Joao Figueiredo.

Governor Montoro, a man of the moderate Left, has been accused of weakness for failing to nip the disorders in the bud. The charge is probably unfair. Allowance must be made for the obvious difficulties facing an opponent of the military regime upon taking over what had previously been a sternly authoritarian machine of law enforcement.

### Oil crises

However, the Governor is open to a charge of recklessness for having promised, during his election campaign last November, to launch public works giving employment to 40,000 people. Like most other Brazilian states, São Paulo does not have the money for even a modest venture of that kind.

It is dangerous to arouse hopes which cannot be fulfilled. In the present situation of Brazil, the broad outlines of that situation are well known. A period of rapid growth, sustained in the main by the public sector, was abruptly halted by the impact of the oil crises of the 1970s and the subsequent international recession.

Unable to service its debts, Brazil had to negotiate a re-

structuring at the cost of drastically lowering its economic targets. This year the economy is likely to shrink. Subsequently growth of no more than 1-2 per cent a year is considered to be feasible. That compares with the 6 per cent needed to find work for the young people coming on to the labour market. On any realistic assumption, therefore, unemployment will become worse, not better.

This gloomy picture is only slightly relieved by the improvement of the country's balance of trade during March. A surplus of \$514m was in keeping with the hoped for surplus of \$6bn for the whole year. But it would be wrong to jump to conclusions for one simple reason: there is no certainty that the target for 1983, which is one of the underlying assumptions of the rescheduling deal, will really be hit.

### Barter deal

From the point of view of debt management it is difficult to accept the relevance of the barter deal that Sr Antonio Delfim Neto, the Planning Minister, is trying to conclude with Mexico. Barter trade provides no foreign exchange required for debt service. It diverts potential exports that might otherwise be available for export against hard currency. And it may commit Brazil to greater oil imports from Mexico than the austerity programme warrants.

From this analysis it is clear that a task of the utmost delicacy will confront both the Brazilian authorities and their creditors abroad for a long time to come. Both the military regime in Brasilia and the democratically elected state governors in opposition to it must, willy-nilly, pursue the course of austerity imposed by the country's debt.

On the other hand the screws must not be tightened to the point where popular discontent becomes uncontrollable. A most careful balance needs to be struck to keep the country's debt problem under control and to prevent the troubles in São Paulo recurring on a greater and graver scale.

## Strikes in UK public sector

MR NORMAN TERRIT has made it clear he is not going to ban strikes in Britain's essential services, in a quiet assurance given to Conservative Party officials.

This is sensible, for a number of reasons. First, compelling unwilling workers to work is a recipe for pent-up aggravation and plummeting productivity, as witness Poland. Secondly, the more domestic case of Betteshanger Colliery, in Kent, where the 4,000 miners struck in 1981 and could simply not be prosecuted by the Government despite strikes being proscribed under wartime regulations, is a salutary reminder of the difficulties of enforcing effective sanctions.

Thirdly, the constant problem, pointed up in the 1981 Green Paper on Trade Union Immunities, is defining which services are essential. In an interdependent economy, demarcation lines are hard to draw: the power station workers demand essential and the lorry drivers delivering coal or oil to the station not so considered? Are miners essential workers? And do not some people consider television technicians as at least as necessary to civilised life as any other group? To penalise or to reward "essential" service workers is to set up new tensions between them and other workers who may be only arbitrarily excluded from the category in which the former have been placed.

### Restraint

The 1981 Green Paper made the point that, in general, "workers in key sectors have exercised their considerable power to disrupt the community with restraint... if they have taken action at all, they have usually maintained essential services and supplies." Some groups—like nurses—simply do not take strike action whatever the cause, while others—like miners—only rarely do, despite the urgings of their leaders. The obvious exceptions of the health service workers (1978-79 and 1982) and the water workers (1983) provide the emotive backdrop for Mr Territ's present thoughts on curbing industrial action in these areas—but they are exceptions.

## BTR's RAID ON THOMAS TILLING

By Barry Riley and Ray Maughan

BTR

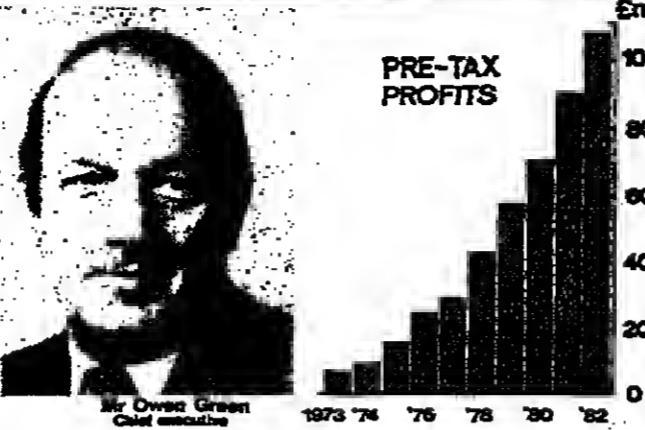


Sir Owen Green  
Chief executive

Thomas Tilling



Sir Patrick Meaney  
Chief executive



GROUP TURNOVER in 1982: £750m. By area: Europe (including UK)—turnover £399.4m, pre-tax profits £54.6m. N. and S. America turnover £144.8m, profits £28.9m. Asia, Australia, S. Africa turnover £172.7m, profits £23.6m.

Employees: 25,700.

SECTORS: 1981 (latest figures available):

● Transportation—turnover £12.5m. Profits £1.5m. Subsidiaries include: BTR Hose, Hayek, Scow Woodward, BTR-Fernd.

● Manufacturing engineering—turnover £214m, profits £27m. Subsidiaries include: Serck (valves and heat transfer), Worcester Controls (valves and actuators), Charlton Leslie Offshore (North Sea oil platform products), BTR Belting (conveyor belting for the coal industry).

● Energy and engineering—turnover £214m, profits £27m. Subsidiaries include: Serck (valves and heat transfer), Worcester Controls (valves and actuators), Charlton Leslie Offshore (North Sea oil platform products), BTR Belting (conveyor belting for the coal industry).

● Other operations—turnover £12.5m, profits £1.2m. Principal activities—medical tubing products, printers blankets, wheels and running gear components for flying vehicles, squash balls, badminton racquets, plastics molding.

● Materials handling—turnover

Starting with cash and one or two companies like Cornhill Insurance, Tilling set out on the path which led to its becoming the leader of the new breed of industrial holding company. During the 1960s its pre-tax profits grew strongly from £4.3m to £12.5m, and the momentum was maintained for much of the 1970s too.

"We had worked out what you might call our reverse hit list," he says. "There were quite a few likely predators. We had looked at BTR in the past but we could never see any tag in it. It is a very different animal."

Any full bid by BTR would inevitably come under close scrutiny in Whitehall, at a time when the Government is under fire for a lack of clarity in its merger policy. Recent rulings by the Monopolies Commission and the Government show there are no clear-cut rules for conglomerate mergers.

For example, Lonrho was allowed to bid for SUITS, but its approach for the House of Fraser was blocked—even though Lonrho had almost no trading overlaps with the department stores group.

It is a traumatic reversal of

roles for Thomas Tilling to find itself on the receiving end of aggressive action by a potential bidder. For in its day Tilling was one of Britain's most successful industrial conglomerates, and over the years it has itself bought dozens of companies—most of them, admittedly fairly small.

The original Thomas Tilling was a horse bus operator in the last century, and the present company was based upon the cash proceeds of the sale of the famous red bus operations to London Transport immediately after the Second World War.

In stepping up its expansion drive, however, Tilling was taking on extra risks at a time

of a sharp worsening in the world economy. Pre-tax profits peaked at £51.5m in 1978, but then began to slip. A sliver in UK profits was only partly offset in 1980 and 1981 by profits from the new US acquisitions, which in any case were reduced by heavy borrowing costs.

The share price began to weaken. The 1981 high of 196p was not regained in 1982 despite a buoyant stock market, and at one stage earlier this year the price was as low as 108p. Increasing gloom about the 1982 results was just as evident last month when the group revealed a slump in profits to 54.7m.

A specific trouble spot was the energy equipment business in the US, which tumbled to losses of £16.6m. Meanwhile with net borrowings increasing by £8m to £207m during the year, group interest charges jumped from £34.6m to £49.8m. Below the line, Tilling charged £20m extraordinary losses and provisions.

Tilling, the company which is fishing in Tilling's troubled waters, could also be viewed as an industrial holding group, although it has developed more narrowly as a manufacturing group—staring in the rubber and belting industry and expanding into engineering and other sectors.

It is a remarkable success

story, attributable very largely

to the drive and determination of its chief executive, Mr Owen Green. An accountant by training, Mr Green took over the reins at the then obscure BTR back in 1987.

For years BTR remained a

minnow compared to companies like Tilling, but its compound growth rate was impressive, and it has retained its momentum through the recession. In 1981 it overtook Tilling in profit terms and moved further ahead in 1982 to achieve £107m pre-tax. Even more markedly, its value on the stock market reached £1bn before its bid for Tilling at a time when the latter was worth only £370m.

If a takeover bid by BTR for Tilling emerges, it will emphasise the clash of styles of the two companies. Whereas Tilling has come to represent a slightly old-fashioned, hands-off style of conglomerate management—albeit with a strong central management function—Tilling is the epitome of an altogether more ruthless approach, with an unrelenting focus upon the bottom line of each operating subsidiary.

Whether Tilling has simply become a little out of date, or whether it has lost its cutting edge through changes in the personalities at the top, is a matter of fine judgment. But there was considerable significance in its clash in 1981 with another industrial conglomerate, Hanson Trust, over the future of the battery maker, Beric, better known in the UK as Ever-Ready.

Hanson Trust is in many respects the most closely comparable British company to Tilling.

It is an industrial conglomerate which, oddly enough, also grew out of a bus company to become a broadly diversified concern.

Like Tilling it moved heavily

into the 1970s, but it has managed to weather the recession—recording pre-tax profits of just over £60m for the year ended last September, up from £42.7m in 1980-81.

In 1981 Hanson moved menacingly upon Beric, a sleepy concern which was wilting badly under an onslaught of international competition.

Beginning with a dawn raid (BTR's tactics with Tilling) Hanson subsequently launched a full takeover bid, criticising the "dismal" results and describing the management as "inept".

But at a crucial stage, Thomas Tilling appeared on the scene as a White Knight. Slapping on a counter bid, Tilling promised to leave Beric's existing management in place.

The consequences for Beric when the Hanson hatchet men moved in were savage indeed. The research HQ and various toymakers in places like Hong Kong, Norway and Nigeria were quickly axed, and the head office shifted from London to County Durham. Then at the end of last year the major Continental battery operations were sold for £37m in cash.

Hanson's hatchets are just as sharp as Hanson Trust's.

When it acquired control of Serck, an engineering group, in the autumn of 1981 it was quick to sack the entire Board—even though a Monopolies Commission investigation was pending.

The current move by BTR

against Tilling is clearly to some extent an opportunist one, aimed at taking advantage of Tilling's short-term problem in the US and its excessive level of borrowing.

Yet there are also more fundamental signs that Tilling has been losing some of its grip upon its subsidiaries, not least because they are much more numerous and more widely dispersed geographically than they were.

The most obvious symbol of the difference in styles of the two groups are their head offices. Sir Patrick Meaney operates from an elegant 18th-century Mayfair mansion called Crewe House, a modest manor house in the middle of this London's stately home to depict it upon the cover of successive annual reports.

Mr Owen Green, on the other hand, is based in a nondescript building—which looks something like a municipal lending library—overlooking Westminster School's playing fields.

Inevitably, there will be something of a personal clash between Sir Patrick Meaney, who is active in the CBI, and a string of outside directors at companies like BTR, Hanson and the much more down to earth Mr Green, who is little known outside his own company (though word had spread far enough by last year for him to be voted Businessman of the Year).

In making any bid, BTR may emphasise the need to take the knife to some of Tilling's more luxurious aspects, such as Crewe House. But the argument will also be about whether Tilling has committed strategic errors, which BTR could correct.

Hanson Trust's expansion strategy has centred upon fairly large, low-risk acquisitions. And BTR has concentrated upon buying businesses within a relatively narrow industrial field—although like Tilling it has sought geographical diversification in the US, were it has bought companies such as Hayek Corporation, a supplier to the papermaking industry.

In contrast, Tilling has made a relatively large number of small, risky investments in a variety of fields. The way that big profits in energy equipment have abruptly turned into losses emphasises the risks of this strategy, and although some of its high technology acquisitions may offer growth possibilities, they could also pose a considerable challenge to the group's management.

If it comes to an outright take-over bid, Tilling will be reassured by the knowledge that it has great experience in the art, if only from the bidder's end. It will also gain confidence from the way that a former intended victim of BTR, Bestor, managed to fight off an attack back in 1979.

But if Tilling loses, the consequence is likely to be a large-scale restructuring of this rambling group, which only recently celebrated its first acquisition in Japan, but now has to concentrate upon defending its home base.

## Men & Matters

### ... bad for business'

In what the New York Times calls an "unusual grass roots movement" business executives are organising themselves into groups against nuclear proliferation and excessive military spending.

Stanley Weiss, chairman of American Minerals, is head of a national group based in Washington which is calling for National Security Executives for Nuclear Security.

"Put simplistically being dead is bad for business," he says.

Meanwhile, Louis Fischer, chairman of Fyodor, a restaurant management company, is leading Philadelphia's Business Executives for Nuclear Arms Control.

Other similar groups exist in Boston, Chicago, Manhattan, Brooklyn, and even in President Reagan's own state of California.

Fischer says: "We are bringing a measure of credibility to the issue. We are not traditional peacekeepers and they just can't dismiss us as dupes of Moscow."

### Capital shares

Bonnie de Loof, aged 39, moved into property dealing when she became bored with nursing. She has since become an expert in property timesharing—a period of a share in a villa, house, or apartment, for just two weeks or two each year.

But whereas traditional timeshare sales have been mainly concerned with the sea and ski trade—beach apartments and mountain chalets—she is busy selling little pieces of central London to US clients.

Bonnie lives in Ann Arbor, a Michigan university town. But she is spending almost half her time in London this spring selling apartments carved out of a

Sloane Gardens town house. About 100 weeks have already been taken—at prices up to \$12,000 for a single week each year for a period of 30 years.

When the Sloane Gardens property was sold the consortium of business backers in the project intends to convert other London town houses into similar luxury apartments and to extend the time sharing concept.

She is selling on the basis of owning an apartment "just blocks away from Buckingham Palace" in the tree-lined streets of Chelsea.

"With names for the flats like Sir Thomas More, Rossetti's Room, George Eliot, The Holbein, Whistler's Fist and Oscar Wilde's Ivory Tower" she can hardly fail to find customers.

Left out

In the best traditions of the stranger goings-on within the London Labour Party some of the Left-wingers on Camden council have just scored an own goal, thereby disclosing a remarkable lack of political foot-work.

The central figure in the drama is Roy Shaw, a former leader of the council, a Labour man, and one of the few members of his party who commands the respect of all parties and officials for the understanding he has brought to bear upon the convoluted topic of local government finance.

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## POLITICS TODAY

# Beyond the party caricatures

By Malcolm Rutherford



Putting the case for their parties (left to right): Alan Beith (Lib), Chris Patten (C) and Austin Mitchell (Lab)

against Tilling, some extent, aimed at taking the U.S. and others. Yet there are some who are still there, and they are numerous and dispersed geographically.

The most obvious difference is in the two groups of offices. Some are operated by the County Mayors, and others by the Home Office departments of the Home Office.

Mr Owen Green, head of the Tilling's, is based in a building which looks like a modern office—overlooking a school's playing field.

Invariably, there is something of a jolt between Sir Philip, who is active in the campaign, and the much more known outside the party (though he is not yet a member of the Conservative Party).

In making any attempt to make the new kind to some of the luxuries of the County Mayors, Mr Green has come to the rescue of the party, which has been invited to the Koenigswinter conference.

Mr Mitchell is an oddball, too. He is regarded by the Labour Left as belonging to the party's right-wing, though you would not entirely think so from reading his book.

Mr Beith puts the case for the Liberal Party, of which he is chief whip, largely because three leading members of the Social Democrats, Dr. David Owen, Mrs Shirley Williams and Mr William Rodgers, have quite recently published books of their own.

Yet in a way all three authors of the new series have something in common, and that is a profound understanding of the party to which they belong, coupled with an acknowledgement of the need to reach out

for wider support of their party to gain power.

Mr Patten, for example, quotes impeccable right-wing sources to support his argument that "the Conservative triumph has been to rebut the 20th century assumption that parties are essentially the expressions of class interest. The Conservative Party had been an upper or middle class party, it would never have won an election.

Mr Mitchell describes the Labour Party as a "heterogeneous" collection of the best will of, in coalition with intellectuals and an odd mixture of better-off men of conscience and sectional cause-patriots. But he also emphasises the need for it to widen its appeal and dilute its class message if it is to build a majority.

Mr Beith has no problems on this score. "The people who make up the Liberal Party," he writes accurately enough, "defy any characterisation because they have not drawn predominantly from one social class, and do not espouse a class view of politics." The whole point has been the electoral system.

There are major policy differences, of course. Two of them may be crucial. One is British membership of the European Community and the other is defence.

As Labour's campaign document, "The New Hope for Britain", confirmed last week, the party has probably passed beyond the point of fudging.

Britain is either in the Common Market or out. Mr Michael Foot's Labour Party is now committed to withdrawal and Mr

Beith is wholehearted in his consent.

On defence, Mr Mitchell judges slightly and is already being attacked by the Left, for his views. He is in favour, and even of trying a bit longer in the negotiations with the Russians on the deployment of Cruise missiles. But, he concedes: "If these negotiations fail, or are clearly going to draw on water, we should then re-examine Clause 4." It is hard to see that is anything other than an admission by others that the disarming lobby, rather than the Atlantic Alliance lobby, in the Labour Party has won.

These policy differences matter not only because Europe and defence are important as well as a Prices, Incomes and

Issues in themselves, but also because they show Labour ranged up against the Tories and the Alliance. True, there are some disagreements—say over the successor to Pollard—but they are minor compared with what the Tories and the Alliance have in common and to whom they differ from Labour. The Labour Party is against membership of the Common Market and takes a dubious position on the Atlantic Alliance. The Tories and the Alliance are pro-both.

Besides that, the economic policy differences among the parties are rather less than might be supposed, most of all in the view of Lord Meade's dictum that we should be happy to raise two hearty cheers for the price mechanism. He responds: "Leave out the rightness and this seems about the heartiness."

Mr Patten goes out of his way to praise the mixed economy and even conducts a from his position a bold defence of the multinationals. Economic salvation is largely seen through devaluation of sterling and he would like to see a Department of Expansion and defence are important as well as a Prices, Incomes and

Profits Commission. "The price of socialism," he writes, "is eternal growth." But, by and large, all that is recognisable language from the old, old mainstream of British politics and some of it can, and does, cross party lines. The Liberals are in favour of an incomes policy, too, and could adapt to either the left-wing Tory or the right-wing Labour side.

The underlying theme of all three books, however, is really about something else. It is the possibility that the two-party system, with which we have lived these past 40 years or so, may be breaking up. What happens under the first part of the post-electoral system, if there really is a powerful third grouping?

Mr Patten quotes Lord Simon's rule: "Our parliamentary system will work as it is if we can't be said that Mr Beith's case is powerfully stated. The Liberals have been advancing by small steps for years. They

have now been joined by the Social Democrats. They are the classless grouping at a time when class allegiances are breaking down more than ever.

Yet something else, on which Mr Beith touches, is even more fundamental. It is the way the two big parties and their supporters tend to see each other

as caricatures, even though they know from their experiences of their own party that the stock image is not always accurate.

Mr Beith discusses party canvassing tactics on the doorsteps. Tory canvassers, he says, tend to seek out owner-occupiers and Labour canvassers council-house estates. By contrast, "the Liberal seeks his support in all of these areas and will find none barren; what he will often find, however, is that the main motive of those who intend to vote Labour or Conservative is in their fear of the other" (My italics).

That is the crux of the caricature, the belief that the Tories are the party of the rich and Labour the party of the poor, whereas anyone who follows politics more closely knows that the differences between the parties are not always all that great. Politicians across the parties often have more in common with each other than they tend to admit.

That makes one wonder how far even the author—none of whom is remotely a party hack—is aware of this fact. Why do politicians cling to their chosen party for so long?

The unspoken theme of the book is political realignment, a process which may not be complete with the departure of some of the social democrats from the Labour Party. A hung Parliament, where it is not even clear who might be Prime Minister, might accelerate it. Certainly the possibility of a right-wing Tory Government or a right-wing Labour Government elected on a minority of votes gives pause for thought. The EEC might be financed in the future, but it did little to suggest an appropriate choice. All the argument still lies there.

The UK will in the meantime continue to insist on annual reviews while France, now digging itself out of the economic hole it dug itself into, might be expected to be less receptive than ever to these British demands.

Yet it is M Jacques Delors, the French Finance Minister, who now recalls Sir Geoffrey's words. He stresses the need for a long-term solution to the European budget problem—nothing novel in that as a French sentiment—but he also draws particular attention to this speech.

There were two prongs to Sir Geoffrey's argument. The first was the valid but well-known assertion that spending on the relatively small budget benefit that France receives from Community agricultural and regional policies. The enlargement of the EEC to include Spain and Portugal will reinforce France's position as a net payer.

France may, in short, be becoming more interested in Sir Geoffrey's less fortuitous system of budget burdens and benefits. Senior British diplomats sense a change in attitude in Paris where concepts such as *équité des soldes* (a flattening out of balances) are now being jiggled with.

Anything which weakens this depressing source of Anglo-French and EEC tension is excellent news. But one must wonder what the search for budget equity will yield. In terms of GNP per capita France is one of the richer member states of the Community—25 per cent richer than the UK. It could therefore expect to be designated, along with West Germany, as one of the paymasters of a more equitable Europe.

## Lombard

# France joins the paymasters

By Nicholas Colchester

ON JUNE 1981, Sir Geoffrey Howe, the British Chancellor of the Exchequer, made a speech in the Hague on stop-shopping themes—the need for a restructuring of the budget of the European Community. It was perhaps the subject which prevented this speech from getting much attention at the time. Yet even committed British Euro-peans, depressed by what seemed the quibbling attitude of the German Government towards the Community, had to concede that this was the clearest and most constructive explanation of the British grievance over the budget over produced by a British Minister.

His conclusion was that the Community ought to take "conscious decisions" on how the budget would affect individual member states, rather than allow it to produce "perverse redistributive effects." These conscious decisions would need to be based on objective criteria such as relative prosperity.

What is there here for M Delors? He plainly has a good relationship with Sir Geoffrey and shares his cool and quiet logic, of which the 1981 speech was a fair example. But in the more decisive matter of national self-interest, there may be another reason why M Delors refers back to Sir Geoffrey's thesis. France is now a net contributor to the EEC budget, alongside the UK and West Germany.

This fact derives partly from France's contribution to the EEC budget, and partly from the relatively small budget benefit that France receives from Community agricultural and regional policies. The enlargement of the EEC to include Spain and Portugal will reinforce France's position as a net payer.

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## Letters to the Editor

## The banning of strikes in essential services

From Mr L. Bloch

Sir.—I refer to your Labour Correspondent's report (April 5) on the private pledge given by the Employment Secretary to senior Conservative officials not to withdraw the right to strike from workers in essential services in part because it cannot be effectively policed."

If the difficulties of enforcement become the paramount consideration in the legislative process, the rule of law is at an end. This is why it remains the function of the police to implement the law, even when the effort of doing so can be rather onerous, just as it is the duty of

judges to punish wrongdoers regardless of whether their sentences are popular with every section of the population.

No civilised society can survive unless it is prepared to stand up to a major challenge. In theory, if a great many people break the law, circumstances could and should be a concern.

Finally, a word about those who could only survive if those who choose to defy it are confronted with the full rigour of the law.

In practice, such a situation is not likely to arise in a politically mature country like Britain. We have a long tradition of respect for the law. Most trade unionists are decent responsible people who would not be associated with quasi-revolutionary situations.

The bogey of "thousands" being sent to jail borders on the fantastic. The police have always been very selective in carrying out arrests

creating new uncertainties and eroding the tax base. On the other hand if zero-rating were abolished the standard rate could be reduced to perhaps 10 per cent without loss of revenue.

Of course VAT is a regressive tax but the remedy is not to fix differential rates, which benefit rich as well as poor. Instead we should look at the tax system as a whole and give compensating relief selectively where it is needed through income tax allowances and social security benefits.

Hubert Scholes, 5a, Lancaster Avenue, Farnham, Surrey.

As the co-author of one of the documents to which Mr. Patten refers, may I offer a few comments on the claim that the banning of strikes in essential services is "a practice impossible in part because it cannot be effectively policed."

If the difficulties of enforcement become the paramount consideration in the legislative process, the rule of law is at an end. This is why it remains the function of the police to implement the law, even when the effort of doing so can be rather onerous, just as it is the duty of

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Friday April 8 1983

**BELL'S**  
SCOTCH WHISKY  
**BELL'S**

William Chislett looks at a decisive step to ease the foreign debt problem

## Breathing space for Mexican companies

MEXICO'S scheme to help private companies reschedule about \$15bn of mainly short-term loans with their bank creditors abroad is a decisive step towards easing the country's nightmarish foreign debt problem.

Mexico's bankers are not entirely happy about the scheme under which companies can buy dollars for future delivery at favourable rates, providing they manage to reschedule their debts over a minimum six-year period.

The scheme, however, provides a vital breathing space for companies. Many private companies are being driven to the wall by the massive extra costs in peso terms of servicing their debts caused by the 82 per cent devaluation of the currency over the past year. Many have made no repayments of principal in the past eight months.

The rescheduling also means that the Government, battling with an acute liquidity crisis, is under less immediate pressure to supply dollars to the private sector for settling debt. It will also now be able to claim the second \$1.1bn tranche of its \$5bn commercial loan, contingent on Wednesday's agreement.

The dramatic plight of the private sector, which accounts for about 40

per cent of Mexico's estimated \$144bn gross domestic product, was underscored by a recent report from the Mexican brokerage house *Estrategia Bursátil*.

The report stated that at the end of last September the 102 most actively traded companies on the Mexican stock exchange owed their foreign banks an average 1.03 times more than their net worth. The situation has since deteriorated.

The basic principle underpinning the scheme, to the great relief of bankers, is that the Bank of Mexico will continue to make dollars available at the controlled rate (now 109 pesos to the dollar) to keep up private sector interest payments which are estimated at \$2bn this year. The rate on the free market is almost 150 pesos to the dollar.

The question of interest payments is crucial for U.S. banks, in particular, because if payments are bad in arrears banks are required to start to write off or at least re-classify the loans.

Mexico's interest payment arrears to the private sector debt had already reached about \$900m for the period August 1982 to January 31 1983 and a formula satisfactory to the U.S. regulatory authorities had

to be worked out earlier in the year to avoid reclassification.

To repay principal companies will be able to use their own pesos or those borrowed at less than the current market rate to buy dollars at fixed monthly rates from a special government trust fund.

These dollars will be used to repay the principal after a reschedule-

### PETROL GOES UP BY 20%

Mexico yesterday increased the price of its petrol by 20 per cent to compensate for declining export revenues caused by the drop in world oil prices. The price doubled last December when the Government of President Miguel de la Madrid took office. The petrol price rise followed a 22 per cent increase in milk prices, a move which has been denounced by labour leaders.

ing agreement has been worked out, but not before 1986.

The nationalised banking system will make loans available to companies to buy the dollars to repay principal at the rate of interest offered to depositors, not at its higher lending rate which takes into account profit margins.

The rates at which companies can buy dollars for principal repay-

ment will be lower than the controlled rate and will become more favourable the longer the period of rescheduling.

For example, the starting rate for the minimum six-year rescheduling period is 84 pesos to the dollar while the cost for an eight-year period, including four years grace, is 75 pesos.

their exchange rate risk on interest payments by buying dollars for principal repayments at the higher controlled rate and then lending those dollars in a paper transaction to the trust fund over eight years.

Under this option, the fund will pay the creditor bank interest paid on the three month London Eurodollar rate (Libor), plus a repayment margin of 2 per cent and assume any exchange rate losses.

Companies will have to weigh up the advantages of spending more pesos against the benefit of protection from exchange rate fluctuations.

Banks are not happy with this option because they want a higher spread than the 2 per cent offered, which is in line with the terms of the public sector rescheduling.

Some banks said they would try to obtain a higher margin from companies when they drew up the complicated legal contracts on each re-scheduling.

Mr Angel Gurria, Mexico's director of public credit, warned, however, that if the banks were too greedy they might "kill the golden goose."

Companies can also eliminate

## Russians 'could lead world gold producers'

By David Buchan in Brussels

THE SOVIET UNION could overtake South Africa as the world's largest gold producer by the next decade, and increased earnings from its gold sales could offset half the projected decrease in Soviet hard currency revenue from energy by 1990.

This forecast was made yesterday by Prof Michael Kaser, of St Antony's College, Oxford, at a Nato conference on the Soviet gold economy.

Of the two countries which still account for four-fifths of the world's newly mined gold, South Africa has sunk from 1,000 tonnes in 1970 to 650 tonnes in 1981, while Soviet gold production has risen from 264 tonnes in 1970 to 346 tonnes in 1981, and Prof Kaser believes it could reach 460 tonnes by 1990.

The forecast, the only one of its kind in the absence of a forward estimate by the Central Intelligence Agency, is based on new resources now on the point of exploitation in Uzbekistan and Armenia.

Io the former there are shallow "low-grade ores cheaply available by open cast mining," according to Prof Kaser, while in Armenia the Zod deposits are high grade and partly obtainable by strip mining.

In addition, gold production elsewhere in the Soviet Union could benefit from manpower "skilled and experienced in cold-climate operations" that will become available once the BAM railway and the Uralski gas pipeline are completed in the mid-1980s, Prof Kaser believes.

The fall in oil prices according to several estimates, is likely to lead to a drop in Soviet hard currency earnings from energy to \$10bn-\$12bn a year by 1990, down from \$17bn in 1980.

If so, gold could make up half the loss, possibly earning \$60bn in hard currency - assuming a \$500-an-ounce price - as against \$275bn in 1981. In contrast to the steady South African gold sales policy, Moscow has previously been erratic in putting its yellow metal on Western markets.

Prof Kaser, however, detects a closer correlation in recent times between increased Soviet gold sales and years in which the Soviet Union has run a wider visible trade deficit, even when the gold price has been relatively low.

In this sense, gold has become a steadier, more normal Soviet export, especially in times of hard currency shortage.

Gold, Page 33

## Credit Lyonnais suffers 34% profits fall as provisions treble

By DAVID MARSH IN PARIS

CREDIT LYONNAIS, the second largest French nationalised bank, yesterday announced a 34 per cent fall in net 1982 profits to FF1.31m, above all due to a three-fold increase in provisions on loans to "problem" countries, which leapt to FFr 1.48bn.

The profits slump came in spite of a big improvement in the bank's operating result in France and abroad. This allowed Credit Lyonnais to follow a more realistic provisions policy than in the past and also to show prudence in the face of the world economic crisis, M Jean Deflasioux, the chairman, said yesterday.

The profits declaration was the first for the 1982 year by France's big nationalised banks. The pattern of sharply higher provisions on foreign loans - M Deflasioux mentioned Brazil, Mexico, Argentina, Poland and Nigeria as the chief problems - seems likely to be followed by the other banks.

M Deflasioux stressed, however, that Credit Lyonnais was a special

case as it needed to catch up with an insufficient level of provisions in the past.

Malory because of poorer earnings performances, the bank was under-provisioned to the tune of about FFr 3.6bn compared with Banque Nationale de Paris and Société Générale.

The results show that the Socialist Government is allowing the state-owned banks to follow reasonable policies in making provisions,

Operating results before provisions and depreciation of the bank and its foreign branches - not including foreign subsidiaries - rose 39.7 per cent last year to FFr 4.81bn. This was mainly because of better profits domestically, in spite of the fall in French interest rates.

Overall provisions rose 84 per cent, however, to FFr 3.77bn. The difference was marked between provisions against doubtful debts to clients and on "diverse risks," which increased by a relatively modest 20 per cent, and those on

loans to heavily-indebted countries, which rose 152 per cent.

M Deflasioux said only 15 per cent of the bank's foreign loans portfolio was with problem nations in Latin America and Eastern Europe. He admitted that a part of international bank lending to these countries would never be recovered.

The bank's balance sheet, during the year - 57 per cent of which is in foreign currency - rose 21 per cent to FFr 500bn.

Pointing to the fall in credit ratings of New York banks with heavy foreign exposure, M Deflasioux said French banks faced much smaller risks lending to nationalised industries at home than to foreign countries.

He pointed out that the banks were under-capitalised internationally and needed higher provisions than their foreign counterparts.

Underlining the costs of banking in France, he said penalties and total costs of the system of credit ceiling limits added up to FFr 200m last year.

## Europeans seek joint strategy

By Paul Betts in Paris

A GROUP of 17 of Europe's leading businessmen is teaming up in a most unusual combination. Their aim is to develop jointly ways to create a solid common industrial base in Western Europe which would enable them to compete against U.S. and Japanese enterprises.

The businessman, a veritable "who's who" of European industrial heavyweights, include the head of Shell Transport, Olivetti, Philips, Nestlé, ICL, Volvo, Unilever, Renault, not to mention Fiat, Bosch, St Gobain, Thyssen and Ciba-Geigy.

Yesterday they completed their first meeting in Paris with plans to set up an informal club to discuss industrial cooperation.

"Never before has such a group been assembled," Mr Pehr Gyllenhammar, chief executive of Volvo, said yesterday.

Although the businessmen did not discuss any specific cooperation ventures, the meeting set the basis for future discussions on developing a joint industrial strategy for European enterprises.

Mr Gyllenhammar said the business agreed that there was urgent need to upgrade Europe's infrastructures, roads and communications.

## Indonesia chemicals complex to go ahead

By CARLA RAPORT IN LONDON

A CONSORTIUM OF private Indonesian businessmen is expected to go ahead with plans to build a \$600m chemicals complex in North Sumatra.

News of this private project comes as plans for two government-backed petrochemical plants for Sumatra, announced by Jakarta just a year ago, appear to be running out of steam. They have been slowed by the balance of payments difficulties Indonesia is experiencing as a result of falling oil prices.

Sum-Chem, a division of Simon Engineering of the UK, is expected to win the main contract for the plant. The company said yesterday that a letter of intent had been signed with Subentra, the private Indonesian consortium, and that full agreement was expected shortly.

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## Brazil's trade surplus

Continued from Page 1

The promotion of semi-barter trade with former major markets, such as Mexico, Nigeria and Venezuela, all of which have suffered recently from their own liquidity crises, has been a main theme of Brazilian policy for months.

Brazil is one of the biggest beneficiaries from the oil price war gathering pace between the major producers. It estimates that every \$1 drop in the market price of oil represents a saving for the country's trade balance of \$250m.

In March, Brazil's imports totalled \$1.19bn, while exports recovered strongly from their lack-lustre performance in January and February to hit \$1.71bn.

Mr Ernesto Galvao said on Tuesday that the March oil import pay-

## U.S. seeks to block loan for Hungary

By Anatole Kalitsky  
in Washington

THE REAGAN Administration is trying to force the World Bank to impose more rigidly the income standards which govern developing countries' eligibility for World Bank loans, in an attempt to block \$235m of loans to Hungary, which is in foreign currency - 21 per cent to FFr 500m.

Pointing to the fall in credit ratings of New York banks with heavy foreign exposure, M Deflasioux said French banks faced much smaller risks lending to nationalised industries at home than to foreign countries.

He pointed out that the banks were under-capitalised internationally and needed higher provisions than their foreign counterparts.

Underlining the costs of banking in France, he said penalties and total costs of the system of credit ceiling limits added up to FFr 200m last year.

ICL confirmed yesterday that negotiations for the project were "well advanced," adding that its management agreement would include arranging for raw material supply and product purchasing.

Just a year ago the Indonesian Government announced plans for two petrochemical plants, a 5.5bn olefins complex in Arun in North Sumatra, and a \$1.5bn aromatics complex in South Sumatra. These projects have been undertaken as joint ventures between the Government and European and Japanese companies. It is now thought that their progress may be slowed by balance of payments difficulties resulting from the declining oil prices.

Subentra, intends to licence the technology for the complex from Imperial Chemical Industries, Britain's largest chemical company. ICI said yesterday that it would also be responsible for the supply of technical, manufacturing, marketing and business management expertise to assist Subentra in establishing its business.

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The U.S. is not likely to argue seriously that the Hungarian gross national product (GNP) per head is as high as \$4,180, but simply that it is above \$2,650. World Bank officials say that the dispute will therefore reopen the question of whether the bank should abruptly cut countries off from its loans as soon as they cross an arbitrary income threshold, or whether they should be "graduated" slowly. The bank believes strongly that in the current international debt crisis it should adopt a more lenient approach to graduation and the U.S. appeared to have acquiesced to this position.

World Bank move on

aid, Page 8

## Shares soar as £ reverses

Continued from Page 1

this effect. Profit-taking in a thin market - itself inspired partly by fears of lower bank base rates - took three-quarters of a cent off sterling's exchange rate against the dollar. This closed in London at \$1.5070. The pound also fell 1.75 p to DM 3.6425, but otherwise held up well. Its effective exchange rate, measured against a basket of currencies by the Bank of England's trade-weighted index, fell 0.3 to 80.8 (1975 = 100).

Gilt edged, as has become their habit, followed sterling.

## THE LEX COLUMN

## BAT scores a boundary

The old picture of BAT Industries

as a sleepy establishment giant

uncomfortably exposed to a single

maturing industry - had been effec-

tively discarded even before yester-

day's remarkable preliminary state-

ment. Like Unilever, BAT has

worked hard to show that it is more

than just a barometer of the west-

ern consumer's propensity to eat

frozen food or smoke cigarettes.

The announcement of a 25 per

cent rise in pre-tax profits for 1982 -

to £858m - takes the rehabilitation

a stage further and strengthens

When that package  
must get there...  
(UK or overseas)  
**SECURICOR**  
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## SECTION II - INTERNATIONAL COMPANIES

# FINANCIAL TIMES

Friday April 8 1983

SNTA PLANS TO ABSORB SUBSIDIARY AND REAP BENEFITS OF GROWING DEFENCE MARKET

## Italian fibres group with a new name for arms

By JAMES BUXTON IN ROME

IT SEEMS a disturbing sign of the times that an Italian company with a worldwide reputation for making synthetic fibres is to change its name and its public image to reflect the fact that the single most important part of its business is now in military equipment.

"It's only right that our shareholders should be aware of the reality of our company today and enjoy the benefit of the fast growth of our defence and space equipment sector," says Sig Giorgio Rossi, chairman of Sna Viscosa, the Milan-based conglomerate.

If the shareholders agree at a meeting in June the parent company, Sna Viscosa will soon merge with its main defence subsidiary, BPD Difesa Spazio, and become Sna BPD.

Sig Rossi says: "Other Italian defence equipment makers, like Oto Melara (Italy's leading maker of artillery and tanks), are either state owned or private companies but we have nearly 20,000 shareholders."

"We couldn't keep a low profile about our defence activities even if we wanted to."

The Iran-Iraq war, the Nato rearmament programme, the expansion of space activity, especially the U.S. space shuttle, and the con-

tinuing development of rockets of all kinds have come to the rescue of a company which has not paid a dividend since 1974 and which, after years of losses, roughly broke even last year for the second year running.

Sna's defence and space sector should this year achieve sales of about £800m (\$417m) making up about 40 per cent of expected group sales of about £1,600m. In 1978 it accounted for only 15 per cent.

The sudden growth of the defence sector comes as a restructuring of the Sna organisation was starting to bear some fruit.

Things began to go badly for the company after 1974 mainly as a result of a chaotic over-expansion of the rest of the Italian chemical and fibre industries. Losses were to pile up.

In 1972 the Italian company, Montedison, had taken a stake in Sna, now amounting to nearly 18 per cent. It was later joined by Mediobanca, the leading Italian merchant bank, which has about 10 per cent.

Mediobanca helped create a grouping of private sector companies, called Consortium with the object of helping other private sector groups in trouble and preventing

them from drifting into the state sector.

Consortium bought into Sna at the turn of the decade, participated in different sizes being taken by its individual members - Marzotto (textiles), Lucchini (steel), Orlando (metals), Firelli (Cables and Tyres), Berlusconi (television),

Almost all the productive activities of the group were in fibres, chemicals, farming and so on. They were disincorporated from the parent company and handed over to subsidiaries, which were allowed more management independence. The payroll was reduced from 34,000 in 1977 to 25,000 today.

The Italian Sna organisation established a reputation for fibres but in recent years has made military equipment its main product. The company is changing its name to show that defence and space equipment is the major earner, expected to represent 40 per cent of sales this year.

The defence business boom coincides with a reorganisation of Sna, which is already benefiting, and the company seems likely to reduce the debts that have piled up in recent years.

Mondadori (publishing) and, almost inevitably, Fiat.

That left about 60 per cent of Sna in the hands of small shareholders.

This assembly of leading Italian industrialists, old and new, helped devise a three-year recovery plan, with "equilibrium" planned for 1982.

It involved the sale of surplus assets - the group sold out of Brazil for more than £100m last year and disposed of some property - and created a new management and ownership structure.

The parent company, Sna Viscosa, retained direct control only of its engineering and minerals divisions.

Another element of the restructuring programme, the doubling of the parent company's capital from £125.8m to £261.8m, did not go ahead in 1981 as planned because prices on the Milan Stock Exchange collapsed before the new issue could be launched.

As a result Sna has suffered increasingly from what Sig Rossi, who is by profession a banker, calls

the perennial problem of Italian industry - undercapitalisation.

In 1981 the Sna parent company had revenue of only £26m, against financial charges of £7.1m. A marginal net profit of £1.36m was achieved only through sales and transfers of assets and revaluation of shareholdings. Group sales last year were £163.8m.

In 1982 a higher gross operating margin than in 1981 was offset by higher financial charges to produce a result expected to be

to reach £34.8m.

BPD is Italy's major producer of shells and explosives, along with its subsidiaries in the same field, Sipe and Stinelli.

Sig Rossi acknowledges that BPD has done well as a supplier of munitions to Iraq since its war with Iran began in September 1980, but Sig Bencini denies a recent magazine report that no less than 80 per cent of its explosives production goes to that country.

Rather, they say, BPD has markets all over the world, wherever fighting is going on or expected,

and is also a big supplier to Nato countries, including the modestly equipped Italian armed forces.

The explosive business is acknowledged to be "preponderant" in BPD's turnover, but Sna prefers to stress its high technology involvement in the field of space.

BPD makes motors for space satellites and is one of only three makers of solid propellants for rockets in Europe. Its propellants are used in the U.S. space shuttle, as well as in many types of military rockets and missiles.

The cash component and readily tradeable securities designed to

lure at least one or both of Adsteam and Bond, while offering an attractive enough package to other

holders to ensure control and an eventual winding out of Bond and Adsteam.

While the AS3.65 a share value

placed on the package by Myer is considerably below the AS4.50 a share value placed by Bond on its offer, the low coupon and delayed payment on the three year bond paper underlie the forcing action of the Bond bid, which came a week after Myer bought out Singaporean Tan Sri Khoo Tech Puat at Grace.

The Myer offer, if successful, would see it lay out a further AS23m in cash, part of which would be covered by the sale of its New South Wales stores to Grace for AS83m in February and a property

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## Myer Emporium in A\$213m bid for Grace Brothers

By LACHLAN DRUMMOND IN SYDNEY

THE MYER Emporium yesterday launched a cash and paper bid for Grace Brothers Holdings which it valued at AS3.65 a share, or AS213m (US\$184.7m) for the company.

The bid follows the purchase last month of an almost 20 per cent stake in the Sydney departmental store group by Myer for AS43m, or AS5.65 a share and compares with the AS4.50 a share of preferred stock offered by Bond Corporation Holdings for Grace.

By setting its minimum acceptance level at 50 per cent of the Grace capital Myer has thrown the pressure back onto Bond, with almost 20 per cent, and the Adelaide Steamship group, with a similar amount, from the Grace family and executives and those sympathetic to the Grace board could probably muster enough shares to push Myer beyond the controlling threshold.

Myer is offering AS2 a share in cash and either 14 per cent 10-year convertible notes of AS1.50 or 20 per cent three year preferred stock for Grace.

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Nothing conclusive came from any party yesterday and with the Myer and Bond bids yet to reach the formal approved offer document stage, the last card has yet to be dealt.

Meanwhile both Grace and Myer reported sharply lower earnings for their latest half year to the end of January.

Net earnings at Myer were down by 54 per cent from AS25.5m to AS11.8m under the burden of interest charges which increased to AS7.8m from AS26m and difficult trading conditions. Sales rose 11 per cent to AS900m.

Grace Brothers' profits were down 35 per cent to AS7.55m on sales 2.8 per cent ahead at AS456m with economic conditions blamed for the reduction.

## Flexi-Van seeks a 'white knight'

By RICHARD LAMBERT IN NEW YORK

FLEXI-VAN corporation, a New York-based transportation leasing company with annual sales of around \$200m, is seeking a "white knight" to help it escape from the clutches of Mr David Murdoch, a west coast financier. Flexi-Van's shares have risen sharply in the past few days in expectation of a proxy battle.

The group said yesterday that it had instructed its investment banker, Dean Witter Reynolds, to seek out and initiate discussions with potential purchasers with the objective of securing the best possible

price for all Flexi-Van shareholders.

Mr Murdoch, whose interests control over 30 per cent of Flexi-Van's shares, was appointed chairman of the company last summer but was ousted from that position just over a week ago. The board said it took this action because of what it described as a "unilateral attempt" by Mr Murdoch to gain control of the company by dictating the membership of the board.

Earlier this week it was disclosed that following his removal from the chair Mr Murdoch had acquired a

further big block of shares in the company, and was seeking to vote the shares attached to a large holding in Flexi-Van's convertible preference shares. If successful, such a move would enable Mr Murdoch to vote around 40 per cent of the equity at the company's annual meeting, which is scheduled for May 5.

Both sides are already taking out court action against each other on the question of Mr Murdoch's voting powers.

Flexi-Van's net income last year amounted to \$28.5m, \$3.04 per

share.

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U.S. \$20,000,000

**SUNDSVALLSBANKEN**
**FLOATING RATE CAPITAL NOTES**

DUE 1985

For the six months

8th April, 1983 to 11th October, 1983.

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 10 per cent and that the interest payable on the relevant interest payment date, 11th October, 1983 against Coupon No 10 will be U.S. \$51.67.

Agent Bank: Morgan Guaranty Trust Company of New York, London

These Debentures having been sold, this announcement appears as a matter of record only.

New Issue

**INTERNATIONAL COMPANIES and FINANCE**
**Strong advance for GIB**

By Mary Frings in Bahrain

GULF INTERNATIONAL Bank (GIB) yesterday announced a 1982 profit of \$50.8m following the ordinary general assembly chaired by Mr Abdulla Hassan Saif, governor of the Bahrain Monetary Agency. This is a 46 per cent improvement on the \$34.6m reported for 1981.

United Arab Banking Corporation (ABC), whose 1982 profit and loss account shows \$50m for loan portfolio support, GIB has made no specific provision for bad and doubtful loans beyond the normal reserve appropriations.

GIB, which was established almost five years earlier, has a smaller equity and asset base than ABC but its loan portfolio of \$3.3m is now bigger than ABC's \$2.8m.

Assets were up 38 per cent to \$6.2m and loans increased by 43 per cent. It has been decided to distribute a £D 1m (\$2.652m) dividend to each of the seven shareholder states.

BY ANDREW FISHER IN HONG KONG

HONG KONG'S commodity exchange has acted to preserve its image by calling for the resignation of chairman Mr Peter Scales, whose securities dealing licence was taken away last week.

Mr Scales, aged 50, has been chairman of the fast-growing exchange since it was set up more than five years ago.

The loss of his registration to deal and advise in securities had no connection with activities on the exchange. It was related to alleged misconduct in a brokerage firm called Wustock Brokers, owned by Mr Scales and his wife, Mrs May Wu Scales.

The registration was revoked in an order by Mr Robert Fell, the securities commissioner.

The exchange said in a statement the board "has agreed to take steps to end a written request to Mr Peter Scales asking that he resign as a director and chairman."

**HK commodity exchange asks chairman to quit**

The statement did not elaborate on the decision, but the exchange is understood to have felt such a move was necessary to maintain its image, even though the licence revocation was a separate matter.

Mr Scales, a former deputy chairman of the Wetherspoon property, shipping and trading group, would not say whether he had decided to resign but said he would make no moves before consulting his lawyers.

He added he had discussed a possible appeal against the revocation of his securities dealing registration with his legal advisers.

Mr Scales admitted "commercial misjudgment" in selling shares late last year in the transaction which caused the order, but said this was not itself grounds for Mr Fell's decision.

The securities commission said last week that Wustock passed

client's securities to a third party without adequate safeguards.

Mr Fell also suspended Mrs Scales' registration until the end of this year.

The resignation request to Mr Scales comes as the exchange is seeking to enlarge its activities by moving into financial futures.

The Government and the securities commission are also reviewing the exchange's licence after the first year and a revision of the initial ordinance is under way.

The request to Mr Scales is understood to have been agreed unanimously by the exchange's board, although with regret in view of the work in building up the activities.

Last year the exchange raised turnover by 81 per cent to more than £1m contracts, with operating profits estimated to have risen by a similar amount from HK\$50m (£US\$39.6m) to about HK\$11m.

The company said its share of profits from associated companies

rose by 90 per cent on a 38 per cent gain in turnover, and that new passenger car sales in both countries rose despite the recession.

C and C has declared an interim dividend of 12 cents, up from 10 cents in the first half of the previous fiscal year.

Meanwhile, Pan Malaysia Cement Works (PMC) said its subsidiary, PMC Holdings, has paid a total of \$356.8m for a 10 per cent stake in Cycle and Carriage.

There have been rumours about a takeover of C and C by Malaysian United Industries, of which PMC is a subsidiary. The holding company said that as an investment company it would from time to time invest in the equity of companies. The 10% C and C shares were purchased through its internal cash resources, it said.

AP-DJ

**Cycle and Carriage lifts profits by 45% at midway**

SINGAPORE — Cycle and Carriage said its group pre-tax profit rose by 45 per cent to \$340.6m (US \$18.3m).

In the half-year ended March 31, 1983, compared with the same period in 1981-82.

Group turnover rose by 14.8 per cent to \$153.1m. Turnover in Malaysia rose by 39.5 per cent to \$84.1m, while sales in Singapore rose by just under 1 per cent.

C and C said its Mercedes division in Singapore did well, despite lower fleet sales of commercial vehicles. The Mitsubishi divisions in both Singapore and Malaysia benefited from sales of new models.

Investment income was \$22.3m, more than \$3m of which was interest received on loans to Newman Industries. C and C has just sold most of its stake in that concern.

The company said its share of profits from associated companies

over the coming five years, of which some \$200m will have no direct effect on corporate accounts.

Alusuisse's losses originated in the aluminium sector last year.

The chemical industry subsidiary, Lonza, recorded a 3 per cent improvement in net profits to \$14.5m and Maramonts, the Chicago-based automotive equipment manufacturer, a rise in pre-tax earnings of 26.6 per cent to \$67.5m.

Over the past two years, the aluminium divisions have divested capacity.

**Dutch textile group raises dividend**

By Our Amsterdam Correspondent

NIJVERDAL-Ten Cate, the Dutch textile group, emerged from 1982 in better shape than bad been forecast. Sales, which the company had expected to drop, rose slightly, from the 1981 total of F1.448m to F1.466m (\$171m).

Net profit was up from F1.53m to F1.448m. In this case, however, the addition of F1.6m from property sales and fire insurance accounted for all but F1.900,000 of the increase.

Textile, badly hit in the 1970s and by the slump in the European textile industry, has been restructuring in recent years and appears now to be in a better position to cope with foreign competition.

The management proposes that F1.10.7m of the year's earnings total be transferred to reserves and is recommending a dividend of 8 per cent—2 per cent up on 1981.

**Valeo steps up payout**

By Our Financial Staff

VALEO, THE French motor components group, which recently estimated a major recovery in profits for 1982, is to increase its dividend for last year to FFr 13.20 a share from FFr 12 paid for 1981.

The car parts company staged a sharp turnaround last year with net earnings estimated at FFr 60m (\$8.3m), compared with a FFr 22m loss in 1981. Parent company earnings stood at FFr 15.4m last year, against a loss of FFr 10.6m in 1981.

Valeo said parent company revenue rose 12 per cent to FFr 2.5m in 1982 with export sales up 17 per cent to FFr 695m.

**Bekaert lifts net profit**

By Our Financial Staff

BEKAERT, the Belgian wire rope maker, has increased its dividend for 1982 and plans to lift its dividend.

Net profits for last year rose steeply to FFr 496m (\$10.4m) from FFr 209m in 1981. The result follows a relatively modest increase in sales, which improved from FFr 28.7m to FFr 31.9m for the year.

The dividend is going up to FFr 120 a share, against the FFr 85 which shareholders received in 1981.

**Alusuisse sees return to black in 1984**

BY JOHN WICKS IN ZURICH

ALUSUISSE, the Swiss aluminium producer, will stay in the red this year but should return to profits in 1984.

This year had got off in a bad start because of the time lag needed for improved metal prices to work through to earnings, said Mr Emmanuel Meyer, chief executive. However, the industry expected some improvement in the second half of 1983.

As a result this year's performance from Alusuisse would be "a shade better," and by 1984 the company should be back to profits.

Earlier this year, Alusuisse reported a net loss for 1982 of \$2.3m and said that it would not be able to pay a dividend. In 1981, a net loss of \$2.3m resulted in a dividend halved to \$2.1m.

The group deficit last year would have been much higher had it not been for the creation of a \$2.7m reserve fund from the valuation of bauxite mining rights in Australia, where Alusuisse has a substantial interest in Gove Aluminium. Of the \$2.7m revaluation,

\$2.0m was taken into the 1982 accounts as extraordinary income to set against part of the group's large-scale restructuring costs.

These costs arise from the difficulties experienced by the aluminium divisions, which last year accounted for 59 per cent of group turnover of \$2.65m. They include expenditure on the discontinuation of operations, accelerated write-offs, contract modifications and personnel settlements.

Further similar costs totalling \$2.0m will be incurred

**Swedish Match sells subsidiary**

BY JOHN DAVIES IN FRANKFURT

PERSTORP, the Swedish chemicals and laminates group, is pursuing its strategy of building up specialities operations abroad by taking over a West German subsidiary from Swedish Match.

It is buying Unidur, a maker of surfacing materials for furniture and kitchens, at Burstadt in Hessen. Unidur is relatively small.

With 140 employees producing sales revenue of DM 32m last year, Perstorp, however, sees it as a technically advanced production base from which to increase its German revenue.

Perstorp earned only 5 per cent of its world sales revenue in West Germany last year, compared with 15 per cent in the UK and 20 per cent in the U.S.

The 1982 result was F1.105m.

The sharp fall in interest charges last year—from F1.66m to F1.50m—was brought about largely by a decrease in capital invested.

Tax on gross earnings last year came to F1.17.3m, compared with only F1.41.000 a year earlier, while extraordinary losses, mainly arising from exchange rate fluctuations and foreign participations and subsidiaries, doubled, to just over F1.4m.

Perstorp noted that Paktant, the total had risen to F1.97m, and that

contribute as much to group profits as in previous years, but said this was to be expected. Paktant, the transport division, also saw a sharp fall in profits, and there was a decline in the contribution of Paktant U.S.A., the main American subsidiary.

Paktant Europe recently entered into a joint venture with the Singapore authorities, which it is hoped will prove profitable.

Paktant itself is expected this month to announce the completion of its takeover of Pandair, the UK airfreight and forwarding subsidiary of P &amp; O.

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The 1982 result was F1.105m.

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contribute



## UK COMPANY NEWS

## Ladbroke ahead 10% to £36.2m

PRE-TAX profits of the Ladbroke Group for 1982 rose by 10 per cent over those of the previous year to £36.2m and the group's profit was "particularly evident" in the second half based on continued trade in 1982.

Profits for the second six months rose by 18 per cent to £22.8m compared with the same period in 1981.

Mr Cyril Stein, the chairman and managing director, regards the full year figures as "highly satisfactory" and is stepping up the dividend by 7.6 per cent to 8p net per 10p share by a final payment of 4.3p (3.82p).

Looking to 1983, he says that with the continuing increase in disposable income, consumer spending, the group's leisure and retail operations should again do better.

He points out that the hotels are achieving increases in business and that the property divi-

## BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends mentioned at the final and the subsequent dividends shown below are based mainly on last year's timetable.

TODAY

Interim: S C B I T S Metropolis

Finals:

Ambridge Brothers, Clyde Petroleum, Oaktree Hotel, J. E. England (Wellingborough), Insurance Corporation of Ireland, Isle Shipping, North British Canadian Investment, Senior Engineers.

Amended:

May 19 Poly Peck

May 17 Schlesinger Cities Investors Trust

May 17 Waswell

April 21 Warkton Gold Mining

April 21 Finlays

April 20 Asbury and Madeley

April 19 Broom

April 18 Enray

April 18 General Investors & Trustees

April 18 Hall (Matthew)

April 18 Miller (F.) (Textiles)

April 18 Sons

Amended:

May 19 Poly Peck

May 17 Schlesinger Cities Investors Trust

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April 1



**AECI LIMITED**

(Incorporated in the Republic of South Africa)

**NOTICE TO  
PREFERENCE SHAREHOLDERS  
DIVIDEND NO. 90**

Notice is hereby given that on 10 March 1983 the Directors of AECI Limited declared a dividend at the rate of 5.5 per cent per annum for the six months ending 15 June 1983 payable on that date to holders of preference shares registered in the books of the Company at the close of business on 29 April 1983.

The dividend is declared in United Kingdom currency and cheques in payment will be posted from the offices of the transfer secretaries in South Africa and the United Kingdom on 13 June 1983.

Dividends payable from Johannesburg will be paid in South African currency at the rate of exchange ruling on 23 May 1983.

Any change of address or dividend instruction involving a change in the office of payment, if intended to apply to this dividend, must be received on or before 29 April 1983 and members must, where necessary, have obtained the approval of the South African Exchange Control Authorities and, if applicable, the approval of the other Exchange Control Authorities having jurisdiction in respect of such change. Changes of address or dividend instructions to apply to the dividend which do not involve a change in the office of payment must be received not later than 1 June 1983.

In terms of the Republic of South Africa Income Tax Act 1962 (as amended) dividends payable to persons not ordinarily resident nor carrying on business in the Republic or to companies not registered nor carrying on business in the Republic are subject to deduction in respect of non-resident shareholders tax at the rate of 13.7025 per cent.

With regard to cheques despatched from the United Kingdom office, United Kingdom income tax, at the basic rate less, where applicable, the appropriate double tax relief, will be deducted from the dividends paid except in cases where the holder's address and the address to which the dividend is sent are both outside the United Kingdom and in cases (if any) where the company has received from the Inspector of Foreign Dividends in Great Britain a certificate exempting the dividend from United Kingdom income tax.

The transfer books and registers of members in Johannesburg and the United Kingdom will be closed from 30 April 1983 to 13 May 1983 both days inclusive.

By order of the Board  
J. J. Low  
Secretary

Transfer Secretaries:  
Consolidated Share Registrars Limited  
40 Commissioner Street, Johannesburg and  
Charter Consolidated PLC, Charter House  
Park Street, Ashford, Kent, England

**FINANCIAL TIMES  
INTERNATIONAL  
YEAR BOOKS  
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1983**

Comprehensively revised and updated—the 1983 edition of the international guide to the activity and financial performance of companies involved in all aspects of the oil and gas industries. 1000 company entries. Separate listings of international associations and oil brokers and traders. Expertly compiled and indexed. 246mm x 189mm 600pp £44.00 0582903157

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**Boddingtons**

BODDINGTONS' BREWERIES PLC

**Profits rise by 37.8%**

	1982 (£'000)	1981 (£'000)
<b>Turnover</b>	44,474	29,333
<b>Profit before tax</b>	8,609	6,248
<b>Profit after tax</b>	4,653	3,805
<b>Dividend payment per share</b>	4.0p	3.5p

Points made by the Chairman, Mr Ewart Boddington:

- Profit before tax increased by 37.8% with the benefit of 45 weeks trading at Oldham Brewery.
- Boddington and Oldham together achieved an increase in volume beer sales.
- Capital expenditure, at £3.64 million, was substantial. This was funded from the company's cash resources.
- New investment has been made in Oldham Brewery in order to keg Heineken Lager.
- Good progress was again achieved in the Free Trade.
- Sales of our packaged beers continue to make progress, representing an important contribution to profits.
- I look to 1983 as another satisfying year for the company.

Annual General Meeting, Midland Hotel, Manchester 11.45 am Friday, 6th May 1983.

Copies of the Annual Report may be obtained from:  
The Company Secretary, P.O. Box 331, Strangeways Brewery,  
MANCHESTER M60 3EL.

**Boddingtons**  
Strangeways Brewery Manchester

**BTR raid  
on Tilling  
peters out  
on third day**

BTR is understood to have picked up only a further 375,000 shares in Thomas Tilling as its market raid dragged through its third day.

With the addition of the 500,000 shares reported to have been acquired by BTR on Wednesday this suggests that the industrial rubber and polymer products group has made little impression on the target equity since it purchased a 5 per cent stake in Tilling on Tuesday morning.

BTR's aim is a 14.99 per cent stake in Tilling, the equivalent of 43.5m shares.

**KENNINGS/WESTERN  
MOTOR REVISED DEAL**

Western Motor Holdings and Kennings Motor Group have announced revised terms, whereby Kennings will acquire 51 per cent of Western Motor subsidiary Distributor Deliveries. Western Motor will sell 65,560 ordinary shares of Distributor Deliveries for £10,400. The revised terms will give Kennings holding from 15 per cent to 51 per cent, remaining the same as announced on March 18 1983, and is expected to be effective from June 1. The total sum to be provided by Kennings by way of additional shares and loans of £1m is unchanged.

**SKETCHLEY**

Sketchley's subsidiary RENTEX Services Corporation of the U.S. has entered into an agreement to acquire certain operating assets and the rental businesses of Stork Diaper Service Company and Industrial Uniform Rental Company, both of Philadelphia for \$2.59m (£1.73m). Both businesses are involved in laundry and rental services for the health care sector and the rental of garments for industry.

**BRABY LESLIE**

Braby Leslie subsidiary S. Briggs and Co. has acquired for cash the brewery plant businesses of Henry Balfour and Co. in the UK and of the Pfandler Co. in the U.S., comprising certain assets including stock, plant, machinery, designs, patents and trademarks worldwide.

**ASSOCIATE DEAL**

S. G. Warburg and Co., as an associate of Steetley, has sold 200,000 Heworth Ceramic Holdings shares at 141p on behalf of a discretionary investment client.

**PRUTEC INVESTMENT**

Prutec, a subsidiary of the Prudential Assurance Company, has invested £2.5m in Panorama Office Systems, Panorama, now based in Milton Keynes, was established in February 1982 to manufacture and market a new low-cost personal typing centre designed to replace the standard electric typewriter on a secretary's desk, as an alternative to an electronic memory typewriter or word processor.

**JOHN MOWLEM**

Shareholders of John Mowlem & Company have approved resolutions for the acquisition of the authorised share capital of the group from £6.25 to £7.53 by the creation of 5.12m additional ordinary shares of 25p each. Mowlem has also provisionally allotted 5,648,368 new ordinary shares at 176.5p each, on the basis of two for every seven held. Provisional allotment letters have been despatched.

**CYCLE AND CARRIAGE**

Cycle and Carriage has sold £3.6m worth of convertible loan stock in Newman Industries for £m cash.

C and C said in February that it intended to dispose of the stock, subject to court approval of Newman's refinancing plan. Newman has since been approved. C and C now holds 1.8 per cent of Newman's equity common stock.

**RESULTS AND ACCOUNTS IN BRIEF**

THOMAS WALKER (metal smelters) Interim dividend 0.1675p (same) for 18 months ended 31 March 1982. Turnover £302,424 (£303,057). Attributable profit £51,813 (£10,416). Offer all charges. Earnings per 5p share 1.02 (£1.02). METAL INDUSTRIES (electrical and security equipment and building services) — Turnover £58,336 (£50,331) for 18 months to Sept. 31 1982. Pre-tax profit £1,722,000 (£1,500,000). Net profit £150,000 (£160,000). Minority £20,000 (£21,000). Group's holding company has held more than a quarter of Austin shares since 1978. Mr A. J. Fletcher, chairman of

AUSTIN — Turnover 8.4 per cent, but still a discount on the 110% net asset value.

The Review Board said the interim prohibition order had been issued so that the government could be satisfied that Australian interests—foreign interests with substantial Australian equity — had adequate opportunity to bid for the Canning subsidiary.

Mr Trottman said the original approach to sell the Australian subsidiary came from Healing, which acts as agent for Canning, in New Zealand. If the Review Board imposed a 90-day ban on foreign-owned companies in Australia to reduce

**BIDS AND DEALS****Saxon bows out of Clyde merger**

BY DAVID DODWELL

Saxon Oil yesterday withdrew its backing for a planned merger with Clyde Petroleum. In a letter to shareholders, it said new circumstances now make the terms of the Clyde offer too low.

The major change is that "there is now a very real prospect of Saxon participating in a commercial oil discovery." In addition, the prospect of more stable oil prices, coupled with price changes in last month's budget, greatly improve Saxon's prospects, the company said.

Saxon Oil and Clyde Petroleum announced agreement on a merger which valued Saxon at £10,400,000. The deal was off until a month ago. At that time Saxon said that its "could be better developed by

the more substantial group resulting from the merger."

Since then, with terms which valued Saxon shares at 60p and Clyde shares at 63p, the two companies' share prices have been at 60p and 63p respectively this week. Saxon shares had reached 120p, with Clyde at 95p. After yesterday's announcement, Saxon shares leapt 2p to 162p. Clyde slipped 2p to 90p.

The oil discovery discussed is Block 15/8a in which Saxon has 50 per cent stake. While the operator, Conoco, is not yet in a position to make any statement, the Saxon board told shareholders: "Based on the information and advice received, there are reasonable grounds for anticipating that a commercial

oil accumulation exists."

This view was endorsed by petroleum advisers Gaffney Cline, after evaluation of preliminary data obtained.

Saxon said it had approached Clyde pressuring for improved terms, but that Clyde had declined to offer any.

A spokesman for Clyde said last night: "All of these factors were taken into account when our offer was first made. It was based on a fair balance of the risks involved. There are still risks, and a large amount of money has to be spent before these preliminary findings are confirmed."

The first closing date for the Clyde offer is next Tuesday.

Clyde said that between now and then, "we are happy to leave it to the market to make a decision."

Clyde warned shareholders that "investment in Saxon as an independent company would be more risky than an investment in Clyde following the merger."

It also noted that additional finance will be needed to prove the field. This will be done either by reducing Saxon's interest in the block, or by seeking fresh funds from shareholders.

No cash call is imminent, however. Under the original terms of Saxon's flotation, half of the payment for shares was deferred until March this year. This second payment has raised £7.5m.

Consortium members, nevertheless, insisted that they saw no reason to increase the bid, which, at 60p a share, values Clyde Allianz at £22.75m.

One spokesman noted: "It had become clear that the major institutional holders in Cope were not going to accept our offer at the first closing date."

In its company's annual report, released yesterday, he said: "Lawrence Smith and Canning earned net profits of £24,000 in the year ending September 30, 1982."

It was clear, however, that the effects of the recession in Australia would seriously impair trade in the 1982-83 year, he said.

The acquisition, which was completed on April 1, 1982, has been a success, he said.

The Review Board imposed a 90-day prohibition on the deal.

The Review Board said that the planned to seek clarification from the Review Board. Canning did not plan to take the independent action at this stage.

Lawrence Smith and Canning, based in Sydney and employing 65 people, makes chemicals used in the treatment of metal surfaces.

The Review Board said that the planned deal comes within the scope of the 1975 Foreign Takeovers Act, since it would result in a change in control of an Australian business, with the control remaining foreign.

The Act gives an open-ended power to foreign-owned companies in Australia to reduce

AUSTIN — Turnover 8.4 per cent, but still a discount on the 110% net asset value.

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## INTERNATIONAL CAPITAL MARKETS

## FT INTERNATIONAL BOND SERVICE

The list shows the 200 latest international bond issues for which an adequate secondary market exists. For further details of these or other bonds see the complete list of Eurobond prices published on the second Monday of each month. The following are closing prices for April 7.

U.S. DOLLAR		Issued	Ed.	Offer	Change on	Yield	World Bank 10% 88	150 98/4 95/2	8 -0.0%	11.11	World Bank 10% 83	100 98/4 93/2	-0.0% -0.0%	11.05
Amer D/S Fin 10% 90		100	95/2	105/2	0 -0.0%	8.0%	Amer Bank 10% 88	100 98/4 95/2	8 -0.0%	11.11	Amer Bank 10% 83	100 98/4 93/2	-0.0% -0.0%	11.05
British Cpl Hyd 10% 88		200	105/2	105/2	0 -0.0%	8.0%	British Cpl Hyd 10% 88	100 98/4 95/2	8 -0.0%	11.11	British Cpl Hyd 10% 83	100 98/4 93/2	-0.0% -0.0%	11.05
Canadian 12% 88		175	100/2	117/2	0 -0.0%	8.0%	Canadian 12% 88	100 100/2 117/2	8 -0.0%	11.05	Canadian 12% 83	100 100/2 117/2	-0.0% -0.0%	11.05
Canadian 12% 89		175	100/2	101/2	0 -0.0%	8.0%	Canadian 12% 89	100 100/2 101/2	8 -0.0%	11.05	Canadian 12% 83	100 100/2 101/2	-0.0% -0.0%	11.05
Can Pct Fin 10% 89		75	100/2	110/2	0 -0.0%	8.0%	Can Pct Fin 10% 89	100 100/2 110/2	8 -0.0%	11.05	Can Pct Fin 10% 83	100 100/2 110/2	-0.0% -0.0%	11.05
Congo G/S 15 84/92		100	100/2	104/2	0 -0.0%	8.0%	Congo G/S 15 84/92	100 100/2 104/2	8 -0.0%	11.05	Congo G/S 15 84/92	100 100/2 104/2	-0.0% -0.0%	11.05
Coca Cola 1% 88		100	100/2	100/2	0 -0.0%	8.0%	Coca Cola 1% 88	100 100/2 100/2	8 -0.0%	11.05	Coca Cola 1% 88	100 100/2 100/2	-0.0% -0.0%	11.05
Credit Suisse 10% 80		150	100/2	100/2	0 -0.0%	8.0%	Credit Suisse 10% 80	150 100/2 100/2	8 -0.0%	11.05	Credit Suisse 10% 80	150 100/2 100/2	-0.0% -0.0%	11.05
Credit Suisse 10% 89		150	100/2	101/2	0 -0.0%	8.0%	Credit Suisse 10% 89	150 100/2 101/2	8 -0.0%	11.05	Credit Suisse 10% 89	150 100/2 101/2	-0.0% -0.0%	11.05
Deutsche Bk Fin 14% 89		300	110/2	111/2	0 -0.0%	8.0%	Deutsche Bk Fin 14% 89	300 110/2 111/2	8 -0.0%	11.05	Deutsche Bk Fin 14% 89	300 110/2 111/2	-0.0% -0.0%	11.05
Deutsche Bk Fin 14% 89		100	100/2	101/2	0 -0.0%	8.0%	Deutsche Bk Fin 14% 89	100 100/2 101/2	8 -0.0%	11.05	Deutsche Bk Fin 14% 89	100 100/2 101/2	-0.0% -0.0%	11.05
E.C.C. 10% 84		100	100/2	100/2	0 -0.0%	8.0%	E.C.C. 10% 84	100 100/2 100/2	8 -0.0%	11.05	E.C.C. 10% 84	100 100/2 100/2	-0.0% -0.0%	11.05
E.C.F. 12% 81		150	103/2	103/2	0 -0.0%	8.0%	E.C.F. 12% 81	150 103/2 103/2	8 -0.0%	11.05	E.C.F. 12% 81	150 103/2 103/2	-0.0% -0.0%	11.05
E.I.D. 11% 85		120	100/2	100/2	0 -0.0%	8.0%	E.I.D. 11% 85	120 100/2 100/2	8 -0.0%	11.05	E.I.D. 11% 85	120 100/2 100/2	-0.0% -0.0%	11.05
E.I.P. 11% 85		120	100/2	100/2	0 -0.0%	8.0%	E.I.P. 11% 85	120 100/2 100/2	8 -0.0%	11.05	E.I.P. 11% 85	120 100/2 100/2	-0.0% -0.0%	11.05
E.I.P. 11% 85		120	100/2	100/2	0 -0.0%	8.0%	E.I.P. 11% 85	120 100/2 100/2	8 -0.0%	11.05	E.I.P. 11% 85	120 100/2 100/2	-0.0% -0.0%	11.05
E.I.P. 11% 85		120	100/2	100/2	0 -0.0%	8.0%	E.I.P. 11% 85	120 100/2 100/2	8 -0.0%	11.05	E.I.P. 11% 85	120 100/2 100/2	-0.0% -0.0%	11.05
E.I.P. 11% 85		120	100/2	100/2	0 -0.0%	8.0%	E.I.P. 11% 85	120 100/2 100/2	8 -0.0%	11.05	E.I.P. 11% 85	120 100/2 100/2	-0.0% -0.0%	11.05
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## SECTION III - INTERNATIONAL MARKETS

# FINANCIAL TIMES

Friday April 8 1983

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### WALL STREET

## Corporate clouds close in

THE COMING season of first-quarter corporate earnings reports began to trouble Wall Street investors yesterday as a consensus developed that, in a market beset by uncertainties about the direction of interest rates and the Federal Reserve's monetary policy, a profits upturn by the industrial majors was badly needed as an affirmation of faith in a U.S. economic recovery.

Analysts pointed to poor showings by some of the companies which have been reporting ahead of the field, particularly in the high technology sector.

The Dow Jones industrial average, after wavering within a few points of its overnight level throughout the day, finally settled 4.16 higher at 1,117.65, and advancing stocks managed a six to seven lead over declines. But volume dwindled further to some 68m shares from Wednesday's 71.4m, and the underlying tone was described as weaker.

Creditmarkets also underwent a modest downward adjustment after the gains of recent days. Federal Funds, after beginning the settlement week some what easier at 8.75 per cent against a

Wednesday average of 9.10 per cent, again moved uncomfortably upward despite the Fed's intervention with the arrangement of \$1.5bn in customer repurchase agreements at the opening level.

But with Funds at 8.75 in early afternoon, the authorities bought \$320m of short-term bills for a customer account.

Dealers said seasonal factors continued to act as a drain on reserves, and more official involvement could be expected, possibly in the form of coupon or bill sales for the system account instead of merely an indirect operation for a customer.

But the market retained a firm undertone, and the 9.75 per cent notes of 1985 came up to par from 99.75 on Wednesday.

The benchmark long bond, the Treasury 10-year per cent due 1982, moved beyond 98, while the three and six-month Treasury bills yielded within a few basis points of their overnight levels, with some early gains trimmed.

Demand in the government sector stemmed partly from an insolvency declaration late on Wednesday for the Biscayne Federal Savings and Loan Association, which dealers said served as a reminder to market participants that the financial system continued to embody some very fragile elements.

Retailers were a bright spot among the stocks, assisted by higher March sales figures from many of the major chains. K-mart was up 5% at \$31.4, Federated Department Stores 2% at \$37.4, and J. C. Penney 3.1% at \$39.4.

The monitoring of the monthly turn-

over patterns has been meticulous, however. G. C. Murphy, which reported a 1.4 per cent decline for last month against the trend, shed \$4 to \$28.4.

Worries over the fortunes of the technology sector were reflected in selling of Digital Equipment, of \$34 at \$116.75; Texas Instruments, down 1.1% at \$180.4.

Pronounced weakness in golds held Toronto back, although base metals showed only marginal losses. Montreal managed a more buoyant tone, with cautious advances evenly distributed throughout the market.

### LONDON

## Base rate hopes boost equities

MOUNTING optimism about an early cut in UK clearing bank base rates took London markets higher yesterday, and at noon, the FT industrial ordinary share index looked poised to move into uncharted territory.

At that time it was 9.1 up and only 0.8 below its record high, following BAT Industries' excellent preliminary results and surprise three-for-one scrip issue. The announcement generated fresh investment enthusiasm, which had shown signs of flagging after a promising early trade.

Money market interest rates were a key influence throughout, but hopes that the authorities would reduce their intervention rate levels proved to be unfounded. Short-term market rates subsequently hardened to close higher on balance, and equity markets later lost some of their enthusiasm.

The result was that the FT index gave up part of the rise to close a net 8.3 up at 872.2 still only 1.4 off its best-ever mark. Broader-based measurements of the equity market went to new records, including the FT-Actuaries All-share and 500 share indices.

Strengthening interest rate optimism led to a reversal of sterling's recent impressive recovery, which tempered investment in Government securities. Early demand, some on overseas account, was soon satisfied and quotations later drifted lower, helped by profit-taking after the previous four-day advance. Longer-dated gilts closed around 4% lower, but falls among the shorts were generally limited to 1%. Index-linked issues continued in favour and gained a maximum of 1%.

In equities, BAT Industries spurted 85p to 715p, after 725p, after its preliminary results, which were well in excess of market estimates. Other tobacco companies benefited, with Imperial, already standing a couple of pence to the good, ending 8p up at 115p, and Rothmans 8p to 110p.

Strong overnight transatlantic buying of golds followed through into London and led to renewed gains in South African golds and financials, for the fifth successive trading day.

The re-opening of the Johannesburg market gave an additional boost to share prices and the Gold Mines index advanced 12.1 more to 802.6 - a five-day gain of over 71 points.

Leading Australians closed with little overall change, but were reported to be attracting good interest in the after-hours' business.

Share Information Service, Pages 34-35

### AUSTRALIA

## Solid gains

SHARE prices posted further solid gains in Sydney but the advances were the result of a lack of sellers, rather than any big buying interest. The All Ordinaries index ended at 527.5, compared with the previous 523.7.

Investors are holding back until after next week's national economic summit of business, union and government leaders, which is expected to set the tone of the economic policies to be adopted by the Labor Government.

Gold stock speculators were also out of the market, awaiting a firm indication of which way world bullion prices are headed.

In Melbourne, oil and gas issues and golds, continued to firm. Gains outnumbered declines in the oil sector by 28 to four, and overall by 120 to 68.

### SOUTH AFRICA

## Golds higher

THE BULLION price recovery in London and the U.S. fed gold shares sharply higher in Johannesburg yesterday - its first post-Easter trading session. Randfontein advanced R9 to R136 and West Rand Consolidated was R1.30 higher at R9.80.

The higher trend spilled over to most other mining and financial sectors. De Beers rose 12 cents to R8.85, Lydenburg Platinum 40 cents to R8.90 and Anglo American 90 cents to R21.55. Industrials remained directionless.

### FAR EAST

## Tokyo backs away from blue chips

SHARE prices declined during a heavy day's trading in Tokyo as investors backed off blue chip issues to buy lower priced shares. Electricals, precision instruments and pharmaceuticals all ended while electric railway and paper and pulp issues gained.

Foreign investors, in particular, have focused on the railway issues because the companies not only have large holdings of fixed assets, but have also been moving to develop cable television.

Oils and natural resource developers generally fell on profit-taking following Wednesday's sharp rises, though Teikoku Oil rose Y100 to Y848 after an announcement that it had found a large natural gas deposit off Northern Japan. First section turnover totalled about 500m shares, compared with Wednesday's 350m.

Analysts believe that the Tokyo Stock Exchange has now entered a period of consolidation after its recent highs, with downward corrections likely to be triggered by Wall Street declines. But they think that eventually, the market is likely to resume its climb, particularly if signs emerge of improvements in the domestic economy and Japanese exports.

The analysts point to the market's mixed fortunes this week, with falls alternating with rises after Monday's record market average - as supporting the idea of consolidation.

However, they note that there has been no sign of any widespread selling and turnover has been low, with market participants still encouraged by likely future developments.

Overseas buying, mainly of blue chips, ended Hong Kong to close steady though the volume of business remained small. The depressing effect of poorer than expected corporate results recently appears now to have subsided.

The Hang Seng Index closed up 15.68

at 1014, with the rise led by property stocks. Cheung Kong gained 45 cents to HK\$10.10, Hongkong Land 8 cents to HK\$4.25, Hung Hung Kai Properties 15 cents to HK\$7.05 and Swire Properties 30 cents to HK\$6.50.

In Singapore, prices closed narrowly mixed after fluctuating uncertainly in a market which again saw both buying support and profit-taking. At the close, the Straits Times industrial index was up 7.55 at 869.52.

Bond prices were mixed in quiet trading, with the market lacking any impetus from domestic or foreign investors. The lower overnight Wall Street close left share prices mixed in quiet trading in Amsterdam though few major movements were seen. In internationals, KLM declined Fl 3.20 to Fl 149.30 while ABN rose Fl 2 to Fl 362.50. Amro declined 30 cents to Fl 62.40, ex its Fl 1.50 interim dividend.

Publisher Elsevier jumped Fl 14.50 to Fl 289.50 towards the end of the trading day. Demand for the stock came from French investors following a favourable report on the company in a French publication. The price movement was, however, exaggerated by the normally thin turnover in Elsevier stock.

Domestic share prices were steady in Brussels, while foreign prices were higher. Stock of the electrical holding company, Electrolabell, gained BFr 280 to BFr 5.810.

Prices were also steady in Paris, though trading was quieter than in recent days, despite some profit-taking. Prices were said to be benefiting from foreign purchases which outweighed the negative effect of Wall Street's overnight fall.

Investors stayed on the sidelines in Zurich awaiting interest rate developments. Banks and insurances closed mostly very steady.

In Milan, prices were widely lower for the third successive day as operators liquidated long positions in the market. The prospect of continued high interest rates was cited as the dampening of investor interest. Prices held up in the fairly active bond market, although convertibles fell back.

In Stockholm, a half-point cut in the discount rate to 8% per cent had little impact on a thin market.

However, in Madrid, prices firmed as the number of stocks traded rose to 166 from Wednesday's 144, with 52 rises, 24 falls and 90 unchanged.



## Gulf Riyad Bank E.C.

Offshore Banking Unit Established in 1978

Manama Centre Building, P.O. Box 20220, Manama, Bahrain Tel: 232030, Telex: 9088, C.R. 8510

FX & MM Tel: 259413, 259430, Telex: 9089, 9098

Shareholders:

RIYAD BANK 60% - CREDIT LYONNAIS 40%

## BALANCE SHEET 31st DECEMBER 1982

ASSETS	US\$	LIABILITIES	US\$
Cash and due from banks	609 893	Time Deposits	1 137 848 108
Banks Time Deposits	694 855 348	Call Deposits	21 911 184
Loans	474 251 150	Other Liabilities	30 215 906
- Short Term	71 927 558	<b>TOTAL LIABILITIES</b>	<b>1 189 975 198</b>
- Medium Term	374 650 569		
- Long Term	27 673 023		
Investment Portfolio	49 752 605		
Other Assets	23 091 262		
Fixed Assets	330 852		
<b>TOTAL</b>	<b>1 242 891 110</b>		

## COMMITMENTS AND CONTINGENT LIABILITIES

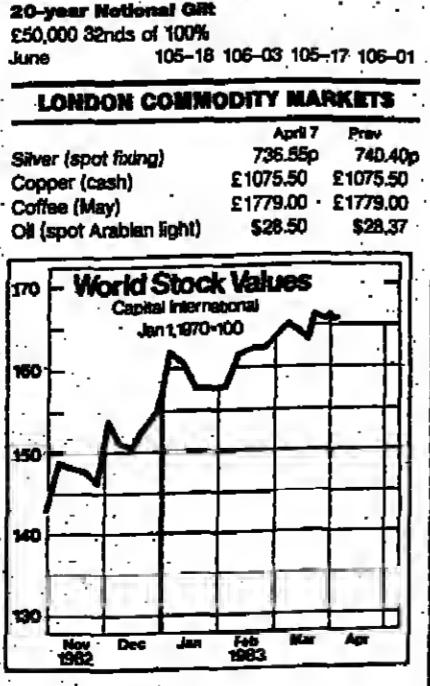
Guarantees	US\$ 29 384 514
Undrawn Loan Commitments	US\$ 47 202 130
Foreign Exchange Contracts	US\$ 178 851 559

## RESULTS

INCOME	US\$ 136 850 197
EXPENDITURE	US\$ 127 575 649
OPERATING INCOME	US\$ 9 274 548
NET PROFIT	US\$ 4 742 550
TRANSFER TO RESERVES	US\$ 4 742 550

IBRAHIM SHAMS  
CHAIRMAN

JEAN DEFLASSIEUX  
DEPUTY CHAIRMAN



## Gold higher

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## COMMODITIES AND AGRICULTURE

ICES  
title of Action

## Fall in wool output expected

AUSTRALIAN wool production is expected to fall by 48 per cent in the 1983-84 season starting July 1, to between 565,000-612,000 kilos.

Mr David Aspin, Australian Wool Corporation (AWC) chairman, said the drought had affected 87m sheep, half the country's wool sheep. AWC stocks now amount to 1,02m bales, down from a peak of 1,06m at Christmas, and should fall further to between 950,000-1,000,000 bales towards the end of the season.

INTERNATIONAL lending agencies that suggest reduced food subsidies for developing countries should urge cuts in arms spending instead, says Mr Edouard Saouma, FAO director-general.

JAPAN is considering reducing or ending a 4 per cent tariff imposed on imported pigmeat.

AN EEC delegation in Bangkok will discuss Community financing of Thailand's plan to substitute 18,000 hectares of rapeseed oilseed.

THE CHICAGO Board of Trade is to introduce a 10 per cent tariff on rapeseed oilseed from July 22.

CHINA has recommenced work on four chemical fertilizer plants, three ethylene plants and one acrylic acid plant. Work was halted in 1980 under the economic retrenchment programme.

THE NATIONAL Soyabean Processor's Association has filed a complaint with the US government challenging the oilseed trade practices in Argentina, Brazil, Canada, Malaysia, Portugal and Spain.

THE COUNTRY Landowners Association will fight "tooth and nail" the Labour Party's proposal to nationalise tenanted land, Lord Middleton, the CLA president, pledged yesterday.

THE PAYMENT in kind scheme will be scaled back next year, and will possibly not include certain commodities, says US agriculture secretary Mr John Block.

## EEC boost for pork exports wanted

BY OUR COMMODITIES STAFF

SUBSIDISED EXPORTS of pig meat to the Soviet Union and other Eastern Bloc countries could help lift British pig farmers out of their present depression, according to Mr Jim Blanchard, chairman of the National Farmers' Union pigs committee.

But he said this could happen only if the subsidies were raised to levels which would allow UK exporters to compete with non-Community supplies. A decision on this is expected next month.

Mr Blanchard is quoted in an article in this week's Farming News as saying: "These markets behind the Iron Curtain have been identified as likely new ones for the Community's pig meat."

The market is there. Now it depends on whether the EEC increases in export restrictions to the same level as the US.

The Government must now take the responsibility of ensuring the processing side is put on an equal footing with other exporting countries."

Apart from the Eastern Bloc,

he thought there were good export opportunities in Japan and the Philippines.

Mr Blanchard repeated his call to Mr Peter Walker, the UK Agriculture Minister, to help pig farmers by allocating financial aid to establish modern processing plants which measured up to EEC export standards and to remove the burden of paying veterinary inspection costs at the plants.

"It is not good him telling the pig processing industry to go out to new sites in development areas," he declared. "The industry does not have the capital to start up again."

He insisted that British farmers produced "the best and most consistent pig meat".

The Government must now take the responsibility of ensuring the processing side is put on an equal footing with other exporting countries."

Reuter

## Cut in cotton acreage

BY RICHARD MOONEY

WASHINGTON—The International Cotton Advisory Committee (Icac) monthly report indicates a decline in 1983-84 world cotton acreage and record world usage.

The cut in world plantings is due partly to the widespread adoption of pesticides in the production-in-kind (PIK) programme, which assure a significant decrease in US cotton acreage, says the committee.

The commission has told the Icac that its members are breaking free trade rules by applying a 100 per cent crop protection quota cleared under the Government's Pesticide Safety Precautions Scheme (PSPS) and by refusing to supply such products to distributors not registered under its own British Agricultural Supply Industry Scheme (Basis).

The association is to ask the commission to exempt its members from Article 85 of the Treaty of Rome, which outlaws the PSPS and to delay implementation of its objectives to the Basis.

Mr Chris Major, association director, says the problems have arisen because the EEC has failed to introduce a Community-wide pesticide registration scheme and the UK Agriculture Minister has decided not to introduce statutory and safety, says the committee.

Predicted increased in all regions, although some individual countries showed declines, the department's foreign agricultural service said.

India remained the largest tea producer with 567,000 in 1981.

Other production included:

China, 381,000 tons (343,000 in 1981); Sri Lanka, 183,000

(210,000); Japan, 105,000 (102,000); "other" Asian countries 146,000 (162,000); Kenya, 96,000 (91,000); Malawi, 38,000 (32,000); Mozambique, 29,000 (22,000); Zimbabwe, 21,000 (10,000); "other" African countries, 47,000 (46,000). Reuter

## World tea production increases

BY Our Commodities Staff

BRITAIN'S FOOD Manufacturers' Federation (Fmf) has welcomed an EEC Commission proposal to modify the system for paying production aid on tomato concentrate output.

Under the proposed system, aid would be paid on the raw material used in processing instead of the finished product.

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## Tomato proposals welcomed

BY Our Commodities Staff

The association wrote to Mr Roger Farmer, Parliamentary Under Secretary of State, Ministry of Agriculture, suggesting that without additional statutory support the EEC Commission would not allow the UK pesticides control arrangements to continue unaltered.

Such legislation was "inevitable" and would have the full support of the industry.

The association has been advised not to take action against any member company failing to follow its code of practice in relation to the PSPS and Basis.

The only prospect which could encourage pig farmers is the statistic that over the past few weeks slaughter of cows and bulls breeding animals, up by 20 per cent and still rising.

Within about a year, this should begin to restrict supplies enough to lift prices—always provided New Zealand refrains from dumping lamb in this direction.

British consumption per head

is the lowest except for Greece and this is particularly so for pig meat, where less than half of Germany's intake is consumed, most other Northern EEC countries consume 50 per cent more. Prices there are little better than they are here. There are no identifiable markets for meat world wide.

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The price New Zealand farmers were getting for lambs last year was about \$NZ20 per head or just over \$3—about 30 per cent of the price received by British farmers for the same type of animal.

When it is realised that input

costs for basic farm resources are the same in both countries I can't help wondering just how long New Zealanders will be able to carry on this production.

No such considerations worry British sheep farmers. They have an open-ended guarantee to insulate them from the realities of the real world in the EEC sheep regime. I benefit from it myself and although I deplore this subsidisation I would be extremely foolish to refuse its benefits.

It is all very well for Mr Walker to call for better marketing and exports but where is more meat to be sold? Consumption of all meats in the EEC except for Greece appears to be falling significantly according to the latest EEC figures.

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## Unsympathetic criticisms exacerbate pig farmers' feelings of grievance

Farmer's viewpoint: By John Cherrington

BRITAIN'S pig farmers have good reason to feel aggrieved. They are facing a cut of some 10 per cent in market prices while feed costs have increased by at least the same amount—a formula, which unless relieved, will put the survival of many of them at risk.

They feel particularly upset because the National Farmers' Union and Mr Peter Walker, the Agriculture Minister, are suggesting that market prices are rising mainly due to the weakness of sterling, that they are responsible for allowing the price of imported cereal substitutes to rise.

A contributing factor to the poor pigmeat market has been the weakness of the wholesale meat market generally, in particular, that for New Zealand lamb, which has been priced well below the levels ruling last year.

The pig farmers' report that they appear to be singled out for special treatment, of un-

believable harshness, if they increase their production. Where they demand plausibly, are the curbs on the production excesses of the cereal milk, beef and other subsidised farmers, and other subsidised farmers.

In fact the cereal regime, with intervention buying and subsidised imports, has been set up in the afternoon of the day before the market can sell in the morning. The UK has been forced to continue this policy, initiated by the last Labour administration, in an attempt to maintain the country's overseas earnings.

It is to be hoped that Iran will prove a better customer this year.

There is no question yet of New Zealand farmers being forced or even asked to reduce their output in a bid to increase prices. The New Zealand meat and wool sectors are already heavily subsidised by what are called supplementary minimum payments which last year are estimated to have amounted to

about 20 per cent of total returns.

The New Zealand Government has been forced to continue this policy, initiated by the last Labour administration, in an attempt to maintain the country's overseas earnings.

Even so the price level

guaranteed does not seem to be sufficient to maintain the optimum level of fertiliser use to secure full production, and uptake is falling.

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## PRICE CHANGES

## BRITISH COMMODITY MARKETS

## BASE METALS

BASE-METAL PRICES were mixed on the London Metal Exchange. Lack of intervention in participation in the afternoon session saw selling in copper to \$1,102 on the last Kerb, while Lead closed at \$214, three months up 1.5 per cent.

Aluminium, \$1,075.50, up 0.5 per cent.

Copper, \$1,106.70, up 0.7 per cent.

Cobalt, \$1,024, up 0.4 per cent.

Copper, \$1,106.70, up 0.7 per cent.



## FT LONDON SHARE INFORMATION SERVICE

## LOANS—Continued

High	Low	Stock	Price	Yield	Yield
1982/83			£	%	per cent

## BRITISH FUNDS

High	Low	Stock	Price	Yield	Yield
------	-----	-------	-------	-------	-------

"Shorts" (Lives up to Five Years)

100% 92% Treasury 5/8c '73 99.1 9.77 9.95

100% 92% Treasury 13/8c '73 102.1 12.25 12.34

101% 97% Exch 10c '83 99.1 9.56 9.59

98% 87% Funding 5/8c '82-84 102.1 10.56 10.59

101% 94% Exch 10c '83 105.1 11.52 11.66

101% 97% Exch 10c '84 105.1 11.52 11.66

94% 81% Exch 3c '84 94.1 3.17 7.65

105% 93% Treasury 12c '84 102.1 11.42 11.45

112% 103% Exch 12c '85 104.1 11.42 11.45

91% 73% Treasury 1c '85 104.1 11.42 9.25

102% 95% Exch 10c '85 104.1 11.42 11.45

107% 98% Exch 12c '85 102.1 11.42 11.45

106% 94% Exch 11c '85 102.1 11.42 11.45

27% 26% Exch 10c '86 102.1 11.42 11.45

107% 96% Treasury 12c '86 102.1 11.42 11.45

114% 91% Exch 12c '86 104.1 11.42 11.45

114% 91% Exch 14c '86 106.1 11.42 11.45

94% 84% Exch 14c '86 106.1 11.42 11.45

97% 87% Exch 10c '87 98.1 11.42 11.45

95% 85% Exch 10c '87 98.1 11.42 11.45

109% 98% Exch 12c '87 103.1 11.42 11.45

98% 78% Exch 7c '87-88 100.1 11.42 11.45

Five to Fifteen Years

103% 95% Exch 10c '88 100.1 11.42 11.45

95% 85% Exch 10c '88 100.1 11.42 11.45

107% 94% Treasury 11c '88 100.1 11.42 11.45

107% 94% Treasury 11c '88 100.1 11.42 11.45

107% 94% Exch 10c '88 100.1 11.42 11.45

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# CURRENCIES, MONEY and CAPITAL MARKETS

## FOREIGN EXCHANGES

## FINANCIAL FUTURES

### Sterling slips back as dollar improves

Sterling lost ground in currency markets yesterday mainly as a reaction to its recent sharp rise. While the mood of the market remained bullish, there appeared to be a desire to consolidate at current levels for the time being.

The dollar improved in late trading and this trend continued in New York. While European period rates were a little easier, short term rates showed little sign of any sustained fall, leaving most people unwilling to go short on dollars.

**STERLING** — Trading range against the dollar in 1982-83 is 1.4500-1.4540. March average 1.4532. Trade weighted index (Bank of England) 122.3 against 124.3 six months ago. The dollar remains quite firm. Oil uncertainties and strains within the EMS have been contributory factors but after so far is now focusing on U.S. interest rates which have not fallen as once expected, reflecting concern over recent growth in the money supply.

The dollar closed at DM 2.4155 against the dollar compared with DM 2.4180 on Wednesday and SWF 2.05 against the dollar was fixed at DM 2.4130 from DM 2.4110 et

3.1050. It was also weaker against the French franc at FF 109.950 and VS 554.

**DOLLAR** — Trade weighted index (Bank of England) 122.3 against 124.3 six months ago. The dollar remains quite firm. Oil uncertainties and strains within the EMS have been contributory factors but after so far is now focusing on U.S. interest rates which have not fallen as once expected, reflecting concern over recent growth in the money supply.

The dollar closed at DM 2.4155 against the dollar compared with DM 2.4180 on Wednesday and SWF 2.05 against the dollar was fixed at DM 2.4130 from DM 2.4110 et

3.1050. It was also weaker against the Japanese yen at Y237.6 from Y237.2 and also against the French franc at FF 12.74 from FF 12.375.

**D-MARK** — Trading range against the dollar in 1982-83 is 2.4940 to 2.2410. March average 2.4202. Trade weighted index 121.1 against 125.8 six months ago. German economic strength and low inflation compared with many of its neighbours have once again caused strains within the EMS. The latest realignment gives the D-mark room for appreciation as it is currently placed close to the bottom of the system.

The guilher was a little disappointing since the latest realignment where it was effectively adjusted downwards against the D-mark. This has turned the spotlight on to the very tight budget deficit below, with a large current account surplus and low inflation failing to hold the guilher. It

has recently touched a record low against the B-mark and is placed close to the bottom of the EMS prompting occasional central bank support.

The dollar was fixed at FI 2.7155 at yesterday's fixing from FI 2.7185. The guilher was fixed at 90.24 against the dollar and was 1.05. The guilher has been a little disappointed since the latest realignment where it was effectively adjusted downwards against the D-mark. This has turned the spotlight on to the very tight budget deficit below, with a large current account surplus and low inflation failing to hold the guilher. It

has recently touched a record low against the B-mark and is placed close to the bottom of the EMS prompting occasional central bank support.

The dollar was fixed at FI 2.7155 at yesterday's fixing from FI 2.7185.

**EMS EUROPEAN CURRENCY UNIT RATES**

	ECU	Currency	% change	from	% change	from	Divergence
central	central	central	central	central	central	central	Unit
rates	April 7	7	7	7	7	7	7
Belgian Franc ...	44.8220	+0.73	+0.73	+0.73	+0.73	+0.73	+0.73
German ...	2.04912	+1.03	+1.03	+1.03	+1.03	+1.03	+1.03
French Franc ...	2.25752	+1.45	+1.45	+1.45	+1.45	+1.45	+1.45
Dutch Guilder ...	9.75271	-0.78	-0.78	-0.78	-0.78	-0.78	-0.78
Irish ...	2.49991	+1.25	+1.25	+1.25	+1.25	+1.25	+1.25
Italian Lira ...	0.74795	+0.97	+0.97	+0.97	+0.97	+0.97	+0.97
Swiss Franc ...	136.78	-3.38	-3.38	-3.38	-3.38	-3.38	-3.38

Changes are in ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

## OTHER CURRENCIES

	Apr. 7	£	3	2	Note Rates
Argentina Peso ...	13,058.104433	68.920	68.970	68.920	25.30-25.80
Australia ...	7.410	1.7450	1.5400	1.5456	1.5400-1.5456
British Guiana ...	640.87	64.87	48.87	48.87	48.87-50.00
Finland ...	1.2355	1.2370	1.2370	1.2370	1.2355-1.2370
France ...	1.2355	1.2370	1.2370	1.2370	1.2355-1.2370
Greece ...	13.801	1.1980	1.1980	1.1980	1.1980-1.2000
Hong Kong Dollar ...	10.104	10.13	10.13	10.13	10.104-10.13
Iran ...	1.215	1.2160	1.2160	1.2160	1.215-1.2160
Iraq-Dinar ...	0.4410	0.4440	0.4440	0.4440	0.4410-0.4440
Luxembourg ...	72.35	72.45	48.01	48.03	48.01-48.03
Malaysia ...	3.4375	3.4375	3.4375	3.4375	3.4375-3.4375
New Zealand ...	1.2355	1.2370	1.2370	1.2370	1.2355-1.2370
Saudi Arab. Royal ...	5.1293	5.2085	5.4503	5.4513	5.1293-5.4513
Singapore ...	4.15-5.19	2.0573	2.0525	2.0525	2.0525-2.0573
South African ...	1.6551	1.6580	1.6580	1.6580	1.6551-1.6580
Switz. ...	5.5335	5.5442	5.5780	5.5740	5.5335-5.5740

\*Selling rates.

## THE DOLLAR SPOT AND FORWARD

	April 7	Day's	Close	One month	% p.a.	Three months	% p.a.	One year	% p.a.
UK £	1.5055	1.5076	1.5076	1.50-1.508	0.73	0.98	0.30-0.35	0.73	0.73
Ireland ...	1.3065	1.3095	1.3070-1.3085	0.80-0.70c	0.73	0.88	0.17-0.20c	0.73	0.73
Canada ...	1.2355	1.2370	1.2355-1.2370	0.91a-0.91b	0.73	0.95	0.05-0.08	0.73	0.73
Norhd. ...	2.7115	2.7220	2.7115-2.7220	1.25-1.255	0.73	1.25	0.05-0.08	0.73	0.73
Sweden ...	1.2355	1.2370	1.2355-1.2370	1.00-1.005	0.73	1.00	0.05-0.08	0.73	0.73
Denmark ...	0.5000	0.5300	0.5725-0.5775	1.30-1.3080	0.73	0.87	0.05-0.08	0.73	0.73
W. Ger. ...	2.4692	2.4710	2.4692-2.4710	0.86-0.87	0.73	0.98	0.05-0.08	0.73	0.73
Portugal ...	95.22	97.75	95.22-97.75	10.40-10.45	0.73	10.40	0.05-0.08	0.73	0.73
Spain ...	1.4311	1.4343	1.4311-1.4343	9.10-9.15	0.73	9.10-9.15	0.05-0.08	0.73	0.73
Norway ...	7.1320	7.1340	7.1320-7.1340	4.20-4.2080	0.73	4.20-4.2080	0.05-0.08	0.73	0.73
France ...	7.2200	7.2340	7.2270-7.2340	15.20-15.25	0.73	15.20-15.25	0.05-0.08	0.73	0.73
Sweden ...	1.2355	1.2370	1.2355-1.2370	1.00-1.005	0.73	1.00	0.05-0.08	0.73	0.73
Austria ...	15.94	16.36	15.94-16.36	9.10-9.15	0.73	9.10-9.15	0.05-0.08	0.73	0.73
Switz. ...	2.0430	2.0450	2.0430-2.0450	0.91-0.92	0.73	0.91-0.92	0.05-0.08	0.73	0.73

UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

Belgian rate is for convertible francs. Financial francs 48.90-49.00.

## EXCHANGE CROSS RATES

	Apr. 7	Pound/Strling	U.S. Dollar	Deutschmark	Japanese/Yen	French/Franc	Swiss Franc	Dutch Guilder	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.5055	1.5076	1.5076	1.50-1.508	0.98	0.98	0.30-0.35	0.73	0.73	0.73	0.73
U.S. Dollar	0.6464	1.507	1.507	1.50-1.508	0.98	0.98	0.30-0.35	0.73	0.73	0.73	0.73
Deutschmark	0.275	0.414	0.414	0.414	1.0	9.94	0.98	0.98	0.98	0.98	0.98
Japanese Yen	1.000	4.204	4.204	4.204	10.15	1000	30.43	30.43	30.43	30.43	30.43
French Franc	0.917	1.381	1.381	1.381	9.39	326.5	10.10	10.10	10.10	10.10	10.10
Swiss Franc	0.324	1.381	1.381	1.381	11.92	11.92	5.03	5.03	5.03	5.03	5.03
Dutch Guilder	0.244	0.367	0.367	0.367	97.39	9.559	1.78	1.78	1.78	1.78	1.78
Italian Lira 1,000	0.461	0.688	0.688	0.688	1.672	1.672	1.672	1.672	1.672	1.672	1.672
Canadian Dollar	0.537	0.809	0.809	0.809	1.985	1.985	5.855	5.855	5.855	5.855	5.855
Belgian Franc 100	1.381	2.081	2.081	2.081	4.852	4.852	16.07	16.07	16.07	16.07	16.07

## SECTION IV

## FINANCIAL TIMES SURVEY

## End of an era—and many illusions

BY IAN RODGER

CANADIANS ARE in an unusually subdued state—still shellshocked from the dramatic downturn in the economy last year, and bemused by the looming prospect of major changes in the country's leadership for the first time in 15 years.

Within the next year or so, Mr Pierre Trudeau, the Prime Minister, and Mr René Lévesque, the Quebec premier, will both retire from public office, both victims of Canada's recent reordering of its political agenda. Now what?

Ever since 1967 when General de Gaulle whipped up French-Canadian nationalism with his cry of "Vive le Québec libre" from the balcony of Montreal City Hall, these two brilliant Quebecers have dominated the public life of the country. Single-mindedly, they worked to promote their diametrically opposed visions of Canada's future.

Both wanted to reinforce French-Canadian society. Mr Lévesque by giving it a national home in a separated Quebec; Mr Trudeau by using bilingualism as the bridge between the two founding nations of this huge country. Mr Lévesque preached Quebecois nationalism; Mr Trudeau the pursuit of a specifically Canadian identity in North America.

Despite the diversity of their objectives, the programmes introduced by these two leaders have changed the character of the country irreversibly. But there is still no final resolution to the constitutional debate, and there may never be one. Indeed, at various points during the Trudeau-Lévesque era, the debate widened as Canadians in all regions of this immense country began to wonder if the existing structure served them well.

However, in the harsh climate of today, Canadians are less preoccupied with their constitutional future than with trying to bolster their battered and neglected economy. Mr Trudeau has been widely criticised for his management

of the economy, and there is no doubt that the record of the past 15 years consists of chronic overspending and a number of wasted opportunities.

But the criticism is somewhat unfair. Mr Trudeau was elected primarily to check the secessionist threat in Quebec and to create "the just society." He probably shared the view of most Canadians at that time that all things were possible in this richly-endowed land, and so didn't worry too much about the economy.

And for a long time, all things were possible. For example, Canada's considerable oil resources made it appear possible to insulate the domestic market from the sharp falls in world prices that occurred in the early 1970s. Canada's political leaders quickly opted for that seemingly easy solution, although they failed to apply the discipline to other costs that would have enabled Canada's industry to take advantage of their good fortune in export markets.

## Diversifying trade.

In the late 1960s and early 1970s were also the years of a new economic nationalism in Canada, and a distaste—growing, partly out of the Vietnam war—for things American. Many Canadians wanted to reduce the country's overwhelming dependence on U.S. trade by diversifying export trade. They also became increasingly unhappy about exporting raw resources, such as oil and gas, rather than value-added petrochemicals.

Today, the country's trade with the U.S. is just as important as it was ten years ago and no one talks any more about the so-called Third Option, under which trade links with Europe were to be strengthened. The big new petrochemicals plants that have been built in Ontario, Quebec and Alberta look increasingly fragile in a world



Declining world oil prices and difficult export markets have put the country in a different mood. The domestic issues of the past have given way to concern about finding strategies for the 1980s

had to be cancelled or postponed.

Unemployment has soared to 12.8 per cent and real incomes have fallen. In the past few months, wage settlements have finally begun to respond. Three-year agreements are increasingly common, cost-of-living adjustments clauses are being phased out and zero increases in the first year are becoming the norm.

A recovery is getting under way, but it is being led mainly by the upturn in the U.S. and by a return of consumer confidence. The corporate sector has been badly bruised by the recession; many leading companies were caught with excessive borrowings and, for a while last year, questions were even being raised about the viability of the big financial banks.

Most economists believe it will be some time before corporate debt-equity ratios are

restored to the point where capital spending by industry will contribute to real recovery.

In the meantime, business and Government leaders are turning their attention to the problem of finding economic and industrial strategies suitable for Canada in the harsh world trading climate of the 1980s.

A Royal Commission on the country's economic prospects was set up last year, and many people hope that its findings will have the same dramatic impact that another Royal Commission did nearly 20 years ago with its recommendation to adopt a policy of bilingualism to hold together English and French Canada.

Certainly, the prevailing mood of business and politicians about the country's prospects is sharply different from what it was 10 years ago. One economist said: "There is no shame in being hewers of wood and drawers of water. But we are going to have to work a lot harder to do even those things better than anyone else."

This new focus on resource strengths has been seen in the federal Government's determination to proceed with legislation to enable grain freight rates to be raised to realistic levels, so that the railways will invest in desperately needed expansion of their handling capacity.

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Similarly, Mr Trudeau's official visit to Japan and six other countries in the Far East in January underlined the Government's commitment to see Canada become a major supplier of resources and re-source technology to the Pacific Rim countries.

Like every country, Canada is also eager to find a place in high technology industries. So far, without much overall direction, a number of Canadian companies have found important niches in the telecommunications and aerospace sectors.

Although it has not been interventionist in its industrial policies, the Government seems inclined to restrict its role to one of generous financial support.

One economist coined a phrase which could catch on when he called for a programme to automate the forest industry by "bringing chips to chips."

## Aggressive behaviour.

A decade ago, Canada was behaving aggressively towards its powerful neighbour, the United States, raising export oil and gas prices and deplored the high degree of U.S. ownership of Canadian corporations.

Today, Canadians are scrambling to keep up with complaints about Canadian actions, from the alleged dumping of lumber to the labelling by Washington of a Canadian film about acid rain as propaganda.

And they are finding the old informal communication channels to Washington through the U.S. Administration no longer work. They have to learn to advance their interests through a more powerful and independent Congress and the ubiquitous political action groups as well.

Despite the many recent assaults on Canadians' illusions, there is no evidence that the people are disengaged. The country's identity and cultural life seem stronger than ever.

Last month, many leading

Quebecois were outraged that their separatist provincial Government attempted to make vindictive political capital out of the lack of French language services in a predominantly English-language hospital in Montreal. A few years ago, most Quebecois intellectuals would have urged the Government on.

And in Ontario, the large French-speaking minority have finally been given the right to have their children educated in French, regardless of expense.

A few years ago in Ontario, such a move would have caused an uproar, but last month it passed without incident.

A new broadcasting policy has been published recently, accepting gracefully that Canada cannot fight off the flood of popular television programming from the U.S. But far from giving up, the Canadian Broadcasting Corporation has announced that it will get out of the ratings race for good and concentrate on making quality programmes even if this means a loss in audience share. A move that has been widely acclaimed.

Last month also saw the annual awards for the best films made in Canada, and one leading critic was moved to observe that it was the first time ever that there were enough good productions and performers that no awards had to be given to them.

What remains surprising is the feeling of political vacuum in the country. Both Mr Trudeau and Mr Lévesque show definite signs of fatigue and the polls show that their constituents are clearly disenchanted with them.

But like the two old arch rivals they are, both seem to be hanging on in the hope that the other will retire first. And they are characters of such a scale that none of the candidates invited to succeed them looks at all impressive.

But then there is no such thing as a vacuum in politics, and any vacuum about the outlook for Canada is bound to clarify before long.

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## CANADA II

The Liberal government is unpopular, but who will follow the old pro?

## Trudeau retirement looming again

AN UNEXPECTED race for the leadership of the National Progressive Conservative party this spring has made Canadians recognise that a federal election may not be far away.

At a party conference in January, Mr Joe Clark, the hapless Tory leader, decided that 67 per cent support of his leadership was not enough and called for a leadership race in which he would be a contestant.

Pollsters immediately began examining the chances of potential candidates and confirmed what most Canadians knew already: that almost any Tory leader could beat the Liberals. It is difficult to pin down the reasons for the unpopularity of the Liberal Government in particular of Mr Pierre Trudeau, Prime Minister for all of the past 15 years except for a brief interlude in 1979 when Mr Clark formed a minority Government.

To a large extent, Mr Trudeau is taking the blame for the poor state of the economy. Canadians have often been disappointed by his amateurish improvisations in the area of economic management.

But also, one or two Canadians say similarly that he makes them angry. They resent his cynicism—in the recent appointment to the Senate of his close friend and aide, Mr Michael Pitfield.

They are offended by his arrogance and insensitivity—as when last summer, at the trough of the recession, he took his sons on a holiday trip across the country in the Governor-General's lavish rail carriage and snubbed those who came out to demonstrate or just to see him.

Perhaps he has just been there too long and, having achieved his major objection of patriating the constitution, is no longer interested in the job.

### Run willingly

On the other hand, it is said that he enjoys being on the world stage and, if there were any chance of his being re-elected, would willingly run again. Mr Trudeau has come from a planned retirement once before, in 1979, when the Liberal party decided—rightly, as it turned out—that he could lead them back to power, and he could do it again.

But it seems most unlikely. There is no urgency about getting a new Liberal leader. The Government is in only the third year of its mandate, and there is a widespread recognition among Liberals that Mr Trudeau must go if they are to have any chance of retaining power.

A few months ago, no one would have given the Liberals, who have governed the country for most of this century, much of a chance in the forthcoming election, regardless of leader.

But the Tories have once again shown their uncanny knack for shooting themselves in the foot. Mr Clark may not be an inspiring, charismatic leader, but he was improving.

His decision to abandon the leadership and then to contest the leadership appears odd at best. What will his position be if he wins the party's June convention with less than the 57 per cent support he had last time?

Also, none of the other candidates for the leadership are much more impressive than Mr Clark. The perceived front runner, Mr Brian Mulroney, a Quebec lawyer and mining company executive, has lots of style and solid Quebec support, but no experience of elected office.

None of the other candidates is bilingual—a virtually disqualifying disadvantage these days—although Mr David Crombie, the amiable former Mayor of Toronto, is working hard at his French.

There has been much speculation about the possible entries of Mr Peter Lougheed, premier of Alberta, and Mr William Davis, premier of Ontario, but they seem to have ruled themselves out. There is no precedent for a provincial premier becoming Prime Minister and both men, although more attractive than some of the other candidates, would suffer from their strong identification with regional interests.

It is widely thought that Mr Trudeau was on the verge of announcing his retirement when the unexpected Tory leadership race emerged. It is now thought that he will go this summer, so that a new leader can be chosen and have the advantage of a few months' experience in office before seeking his own mandate.

The Liberals are above all a pragmatic party—opponents call them unprincipled—but they will embrace any candidate who gives them hope of retaining power.

Fortunately for them, there is such a potential candidate. Mr John Turner, the former Finance Minister, who withdrew from politics in 1975 to practice law in Toronto. Mr Turner is bicultural, bilingual and has roots in British Columbia, New Brunswick, Quebec and, through his wife, in Manitoba. He has the instinctive sensitivity to Canada's regional diversity that Mr Trudeau so lacks.

Mr Trudeau has seen support for the Liberals evaporate entirely west of Winnipeg since

1980, but there already are signs of Liberals coming out of Vancouver closets at the prospect of Mr Turner as Prime Minister. Polls indicate that he is the only potential Liberal candidate who could beat the Tories.

### Amenable

There is much speculation about Mr Turner's willingness to run—he refused in 1979 when Mr Trudeau made his abortive retirement—but people close to him indicate that he is more amenable this time.

Another popular candidate would be Mr Jean Chretien, the present Energy Minister. Although the Liberals' practice is to alternate leaders from French and English language backgrounds, Mr Chretien is apparently eager to run and he thinks Mr Turner is vulnerable to criticism for abandoning the party and the Government when they needed him.

At the provincial level no fewer than six elections took place last year, but in only one did power change hands. The New Democratic Party (social democratic) Government of the respected Mr Allan Blakeney in Saskatchewan was defeated by the Conservatives.

This year, pre-electoral contests can be detected in Ontario and British Columbia—where the Social Credit (populist, conservative) Government of Mr William Bennett is thought to be vulnerable because the NDP Opposition leader and former premier Mr Dave Barrett, has moderated his style.

There's an old joke in Quebec that election campaigns come once every four years and last four years. The Parti Quebecois (secessionist) provincial Government of Mr Rene Levesque was re-elected in 1981, but already it is under considerable strain.

A sharp deterioration in the province's economy in the past two years has left Quebec public finances in disarray. Index-linked wage contracts with public sector employees—who are among the Parti Quebecois' main supporters—threatened to drive the budget into intolerable deficit.

Union leaders refused the Quebec Government's requests last year to renegotiate the contracts and so it unilaterally imposed 20 per cent wage reductions throughout the service and among teachers and health care workers in the first quarter of

this year. There have been strikes and successful challenges of the Government's back-to-work legislation in the courts, and the climate appears to be worsening.

The Parti Quebecois has a more fundamental problem in the decline of public enthusiasm for the secessionist cause. In part, this is due to economic concerns, but it is also an inevitable product of the Government's success in creating an environment in which the French speaking majority in the province no longer feels alienated. For example it has made French the sole official language of the province.

Now there is something of a backlash taking place, with much of the intellectual community opposed to the occasional petty gestures of the



Pierre Trudeau: he enjoys being on the world stage and may not want to step down before his old adversary, Rene Levesque.

provincial Government towards Quebec's English language minority.

As at the federal level, the opposition forces in Quebec have not seemed to be able to take advantage of the Government's weaknesses so far. Mr Claude Ryan, the thoughtful Quebec Liberal leader, resigned last year and no leadership convention has yet been held or is in prospect because there is no obvious candidate.

The two names heard most frequently are Mr Robert Bourassa and Mr Raymond Gagnon, respectively Premier and Finance Minister in the Liberal government ousted by the Parti Quebecois in 1976. Canadian political parties seem to be having difficulties these days in finding new faces.

Ian Rodger

The consequences of Canada's close links with the U.S. are showing

## Economy shaken by fall in industrial production

FOR MOST of the past decade Canada seemed immune to the severe adjustments taking place in the other industrialised countries following the sharp increases in world oil prices.

The economy, stimulated to varying degrees by successive governments, continued to grow fairly steadily until 1981, although by then it was becoming clear to many that the exchange rate alone could not be expected to go on adjusting for the widening gap between U.S. and Canadian wage and price movements.

Then in mid-1981 the combination of very high U.S. interest rates and the discriminatory effects of the National Energy Program on foreign-owned oil companies caused a huge outflow of investment capital just at a time when the vital U.S. markets for many of Canada's products were weakening. The net outflow of direct investment in 1981 was C\$18.5bn compared to an outflow of only C\$2.6bn in 1980 and the country's current account deficit jumped from C\$1bn to C\$5.3bn.

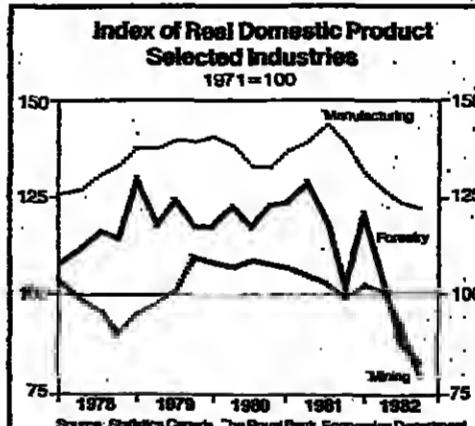
Canadian experience compared to that of other industrialised countries was the speed at which it all happened.

Industrial production has fallen by about a fifth since mid-1981. Corporate profits fell 45 per cent from their peak in the first quarter of 1981 to the third quarter of last year. Employment has dropped by 5 per cent since the summer of 1981 and the unemployment rate has risen from 7.2 per cent to 12.8 per cent.

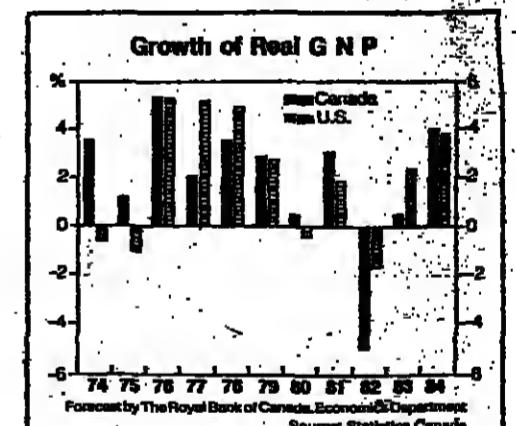
The combined deficits of the federal and 10 provincial governments have soared from an annual rate of C\$12bn in the fourth quarter of 1981 to an estimated C\$40bn or more in 1983-84.

In the event the decline in business activity has been so drastic that private sector wage increases are unlikely to be as high as 6 per cent and 5 per cent over two years, hoping that other public and private sector employers would follow suit.

In the event the decline in business activity has been so



Source: Statistics Canada \*The Royal Bank of Canada, Economic Department



Source: Statistics Canada

The inflation rate remained stubbornly in double figures last year and the federal Government felt obliged to impose a wage restraint programme last autumn of 6 per cent and 5 per cent increases over two years, hoping that other public and private sector employers would follow suit.

In the event the decline in business activity has been so drastic that private sector wage increases are unlikely to be as high as 6 per cent and 5 per cent over the 1983-84 period.

The inflation rate has recently dropped to 7.4 per cent and is widely expected to continue falling for at least another year.

"We are now in the virtuous circle," says Mr. John Grant, vice-president of Wood Gundy, the leading Canadian stockbrokers. "I think Canadians have learned their lesson. There is probably no need to worry about the inflationist case."

The problem now is that business finances are so poor that the recovery is likely to develop very slowly, driven initially mainly by consumer spending.

The unexpectedly rapid decline in demand last year, coupled with the unprecedented high cost of financing stocks, led to a massive destocking process in the latter part of the year. This is now being reversed but underlying real demand is probably not going to improve much this year, if at all.

### Prelude

The Conference Board of Canada expects a 10 per cent drop in real business investment this year after a 4.7 per cent fall in 1981. But it also is showing a sharp recovery in its consumer confidence index from a very low point in mid-1982.

Mr. Tom Maxwell, vice-president and chief economist, thinks the very high personal savings rate last year, 13.7 per cent, was the prelude to a resumption of consumer spending.

CONTINUED ON  
NEXT PAGE

Note: Percent changes at seasonally adjusted annual rates unless otherwise noted.

	1979	1980	1981	1982	1983	Forecast 1984	1985
CANADA							
Real GNP	0.2	0.5	3.1	-4.8	1.9	1.6	2.7
GDP deflator	10.3	11.9	10.1	10.6	8.5	4.3	4.6
CPI	9.1	10.2	12.5	10.8	6.6	3.2	4.8
Unemployment rate (%)	7.5	7.5	7.6	11.0	12.0	12.4	11.7
Pre-tax profits	32.2	7.4	-10.5	-23.3	33.2	24.1	21.2
Housing starts (000)	197	159	178	131	152	170	180
Car sales (000)	1,003	932	904	715	760	801	833
U.S.							
Real GNP	2.3	-0.4	1.9	-1.8	2.2	4.5	4.3
GDP deflator	8.7	9.3	9.4	5.9	4.9	4.7	4.6
CPI	11.3	13.5	10.3	6.2	4.5	4.6	4.3
Unemployment rate (%)	5.9	7.2	7.6	9.7	10.3	9.5	8.5
Pre-tax profit	10.3	-4.0	-4.3	-24.1	13.0	24.0	16.0
Housing starts (000,000)	1,717	1,288	1,190	1,057	1,500	1,700	1,800
Car sales (000,000)	10.6	9.0	8.5	8.6	9.0	10.8	10.5

Source: Wood Gundy.

## CANADA III

U.S.-Canada relations have turned sour, reports Jim Rusk

## Economic nationalism under siege

WHEN MR TRUDEAU brought his Liberal Government back to power in the spring of 1980, he promised Canadians a nationalistic economic policy. The petroleum industry was to be Canadianised, the Foreign Investment Review Agency (FIRA), expanded and industrial strategy to be interventionist and nationalistic.

It was an uncharacteristic position for a Prime Minister who had steadfastly resisted economic nationalism during his first 11 years in office. But, in a victorious election in which a key plank had been a defence of the state oil company, Petro-Canada, the nationalist wing of the party had convinced him that this was what Canadians wanted and Canada needed.

Today, after one of the most acrimonious periods in Canada's foreign relations, only one of the planks has not been reduced to kindling wood. While 1980's controversial National Energy Programme has largely been implemented, FIRA has been dismantled, and industrial policy has been largely a matter of reshuffling government departments and rebelling old programmes.

## About face

This 'about' face can be attributed partly to world economic recession, which sapped Canadian resolve to do battle on all international economic fronts, but mainly to President Ronald Reagan's aggressive administration in Washington. While European and Japanese leaders travelled to Ottawa to say they were more than upset by the direction that Canadian policy was heading, it was in the Canadian-American arena that the battle was fought and economic nationalism routed. In the three

years between promise and retreat, there was an unprecedented shift in Canadian relations with the U.S.

Mr Allan Gotlieb, Canada's Ambassador to the U.S., complained last month that the well-known phrase about "the longest undefended border in the world" might well be the world's longest... unexamined claim. In fact, bitter skirmishes have been fought in the past few years over acid rain, trade in oil and cars, television broadcasting in border areas, harnessing of rivers which cross the border and even — between New Brunswick and Maine — the delineation of the border itself.

Diplomats on both sides now say that better management of mutual relations has emerged. As Stephen Clarkson, a University of Toronto political scientist who closely chronicled the last three years, has recently written: "The bilateral relationship has entered a new stage, a period in which conflicts will be seen as normal between two countries that differ on a number of important issues."

In recent weeks, two such conflicts have been in the forefront.

• The U.S. Civil Aeronautics Board refused to sanction low fares offered by Air Canada, the national airline, in a "seat sale" in trans-border flights.

• In a last-minute compromise, Canada acceded to U.S. request to give an American airline access to the Canada-Australia market.

• The U.S. Commerce Department turned down a request by U.S. sawmills to impose a 65 per cent tariff on Canada's C\$22bn in softwood lumber exports. The U.S. mills had claimed that the Canadian provinces' practice of levying taxes (stampage fees) on timber cut on Crown Lands (effectively all Canadian production) that

vary with lumber prices was unfair to U.S. mills. U.S. stampage fees are set in bids made two to three years before timber is cut.

The case over timber is instructive of the ideological nature of many of the U.S. complaints. Canadian economy is both more mixed and highly regulated than America's, and Canada is certain to find itself in conflict at many junctures with a U.S. administration committed to free markets and deregulation.

## Irritated

Americans often become irritated that Canadians (and other allies for that matter) do not always share these commitments. And it looks as though Americans should even expect approaches to problems to coincide.

While the relationship between the two countries may have improved in the last year, there are a number of important unresolved issues. The most important is acid rain. Canada is determined to meet the U.S.

years to reduce the volume of sulphur dioxide pumped into the atmos-



phere by industries in the mid-West and which falls on Canada in the form of acidic precipitation that is destroying a large number of Canadian lakes.

Canada has not found as much support for its case in the U.S. administration as it would like, and so has resorted also to lobbying Congressmen from communities affected by acid rain. This is a relatively new tactic for advancing Canadian interests in Washington but one which is likely to be used more frequently now that Congress is taking an increasingly independent line on many issues.

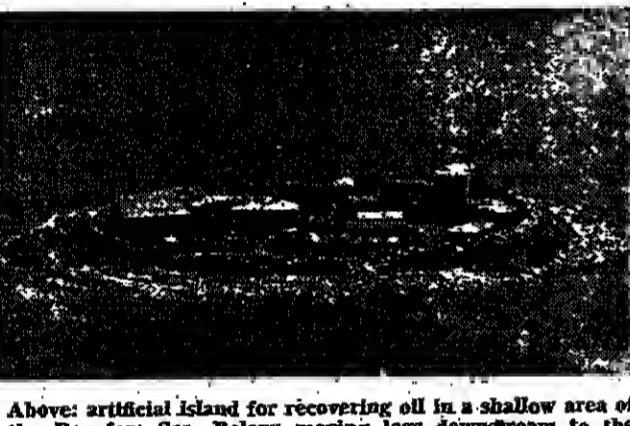
On the U.S. side, energy matters are still high on the agenda with the U.S. pressuring Canada to reduce its natural gas export price, which is linked by formula to oil prices, and with U.S. companies looking for ways to legally challenge the provision of the National Energy Programme that allows the Canadian state oil company to take a 25 per cent stake in hydrocarbon finds without full compensation of the exploration costs.

The result of the past three years is that Canadian poli-

ticians and diplomats have become much more ready to aggressively defend Canadian interests whenever they feel threatened. And it is not only the U.S. that has been at the receiving end of this new attitude. The European Com-

munity encountered it recently in banning the import of seal products.

Japan felt it last year when the clearance of cars through Canadian customs was held up in the face of Japan's reluctance to continue restraint on exports. While Mr Trudeau may have failed to create a new Canadian economic nationalism, at the very least he appears to have reinvigorated the old one.



Above: artificial island for recovering oil in a shallow area of the Beaufort Sea. Below: moving logs downstream to the lumber mill



## Industry decline shakes economy

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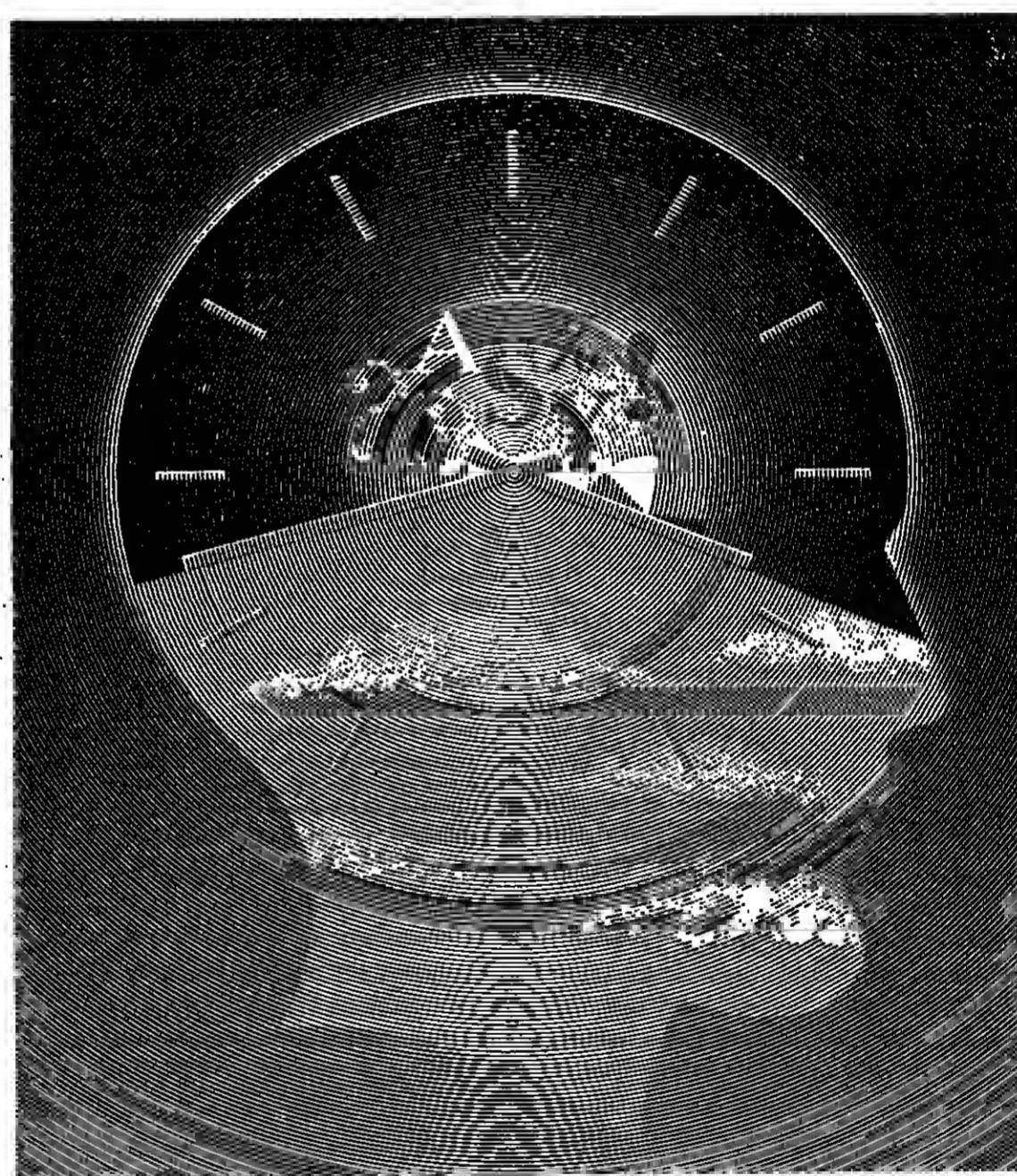
"The importance of consumer confidence cannot be overstressed at this juncture, since with further dispossession of the declines expected this year growth in consumption in 1983 can come only from changes in saving behaviour," he said last month.

Economists are also counting on a recovery in the housing market gathering pace now that interest rates are down to reasonable levels. Housing starts are running at an annual rate of 160,000 compared to 120,000 last year. The rate required to meet demographic trends is about 200,000.

One of the surprises of the recent recession has been the relative strength of Canada's merchandise exports, which have remained fairly stable in real terms since 1980. However, the value of imports dropped by 10 per cent last year because of the weak home economy. Canada is a net importer of about 55 per cent of its manufactured machinery.

The result is that the current account moved into a surplus last year of C\$2.7bn for the first time since 1973 and is expected to remain in surplus at least through this year until growth resumes in the business sector.

The surplus plus the lack of capital spending by business means that the inevitable large Government deficits this year should be handled comfortably without putting pressure on the exchange rate or crowding out other borrowers. The Bank of Canada is clearly trying to lower interest rates as much as



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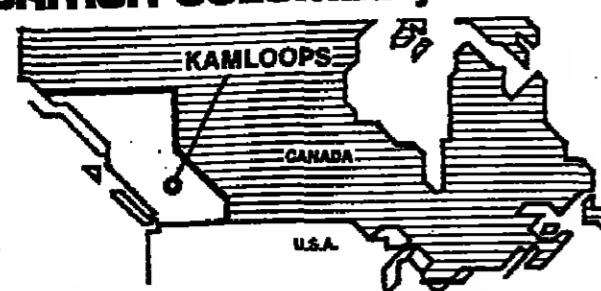
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Ian Rodger

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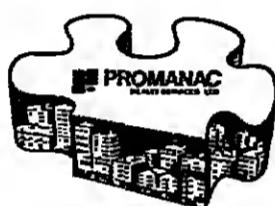
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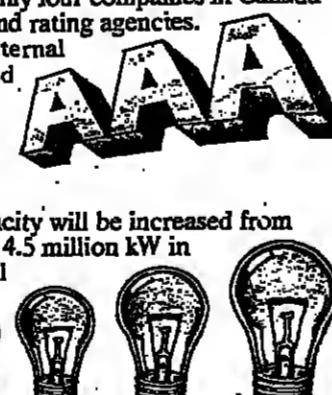
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Large loan losses hit profits, says Nicholas Hirst

## Banking sector burns its fingers

CANADA'S FINANCIAL community is recovering from one of the most difficult periods in its history. The Canadian banks, three of which are among the ten largest in North America, have suffered huge recession-induced loan losses in the past year. Then the image of the staid, conservative Canadian trust and loan industry was hurt in January when the Ontario government took control of the assets of three companies to protect depositors' interests.

The banks have reiterated again and again that the rescue is no way constitutes a "baul out" of the banks themselves. "The fact is that Canadian bank loans to Dome were largely secured by quality assets which we believe—and still believe—constituted an effective security and protection for our position," Mr. Harrison told a Financial Times world banking conference.

"I suppose I could say we—the Canadian banks—went through fire," said Mr. Russell Harrison, chairman of the Canadian Imperial Bank of Commerce. "But when the smoke all cleared, we didn't do badly."

### Sudden halt

Several years of strong growth for the banks came to a sudden halt in 1982. As interest rates soared, many corporate clients found themselves unable to meet payments. Loan losses for the big five in the 12 months to October 31 rose 166 per cent to C\$2.3bn. Non-productive loans, on which interest had not been paid for a period of 90 days or more, rose even more sharply from C\$1.8bn to C\$6.1bn.

The losses were manageable. All the big five made profits in 1982 and two, the Toronto Dominion and the Bank of Nova Scotia, reported modest increases in earnings. It was the Canadian banks' exposure to very large single loans which threatened to damage their international reputation.

"If there was one thing that concerned me, it was having too many eggs in one basket," Mr. Harrison said.

The most spectacular example which received the most attention was the C\$4bn of loans from Canadian banks outstanding to Dome Petroleum. Dome had aggressively fol-

lowed the Canadianisation policies of the National Energy Programme using debt to finance its two-stage acquisition of the American-controlled Hudson's Bay Oil and Gas. When it proved unable to meet repayments on schedule it was forced to negotiate a rescheduling and capital injection package with the banks and the federal government.

The banks have reiterated again and again that the rescue is no way constitutes a "baul out" of the banks themselves. "The fact is that Canadian bank loans to Dome were largely secured by quality assets which we believe—and still believe—constituted an effective security and protection for our position," Mr. Harrison told a Financial Times world banking conference.

But neither the Canadian banks themselves, nor the regulatory authorities, want such large exposure to single loans to occur again. Last month Mr. William Kemmet, the Inspector General of Banks, sent out the first discussion paper on capital adequacy which is expected to result in the issuing of general guidelines. Many banks have tightened their internal guidelines.

Large single loans are the least of the banks' problems. The big volume of bad debts is in the myriad of small loans made across the board of banking business.

The recession has faced many bankers with the kind of conditions they have never experienced before. A search for growth has given way to a desire for prudence. All the banks now have special teams working out problem loans, and high-level lending decisions—which to some extent had been decentralised—are now being taken at head office.

Costs are being pared back, bureaucracies clipped and branch networks rationalised. Falling interest rates and reduced costs helped push bank profits up sharply in their first quarter. Loan losses confirmed to rise, but analysts expect that as interest rates continue to fall, non-productive loans will decrease. Bankers are already

finding that corporate customers are dropping standby lines of credit and replacing bank loans with borrowing in capital markets.

While the banks' problems resulted from the general recession, the Ontario government's decision to seize the assets of three trust companies, Crown Trust, at the time 12th largest in the industry, Greymac Trust and Seaway Trust, was a result of concerns that mortgages had been advanced with an inadequate security on a series of specific property transactions.

The Ontario government subsequently passed legislation to sell most of the assets of Crown Trust to the large Nova Scotia-based Central Trust. Investigations continue, but the industry seems to have emerged unscathed. Shares of trust and loan companies on the Toronto stock exchange have risen sharply during the year.

### Legislation

Legislation on the industry is being prepared by both the federal and Ontario governments. The federal legislation is intended to make the trust and loan companies more like banks. Originally set up in the 18th century to administer the estates of the wealthy, trust companies grew into deposit-taking institutions whose main business was in residential mortgages. The decline in the housing market pushed the companies more and more into corporate development.

The federal legislation takes into account the changes in the industry's business and is largely uncontroversial. But a fight is expected over a suggestion in a discussion paper to limit to 10 per cent any single shareholding in any one company, bringing the trust and loan companies in line with similar legislation on Canadian banks.

Most of the companies, with the notable exception of Canada Trust, one of the big 10, have large controlling shareholders. The industry argues that a change in ownership would not benefit prudential management and could produce damaging upheaval.

The unfavourable publicity



The Royal Bank of Canada building in Toronto. Several years of strong growth for banks came to a sudden halt in 1982.

obeyed neither rule and argued it was not subject to Ontario jurisdiction.

The OSC held hearings in the matter last summer and concluded in October that the Caisse was in breach of the regulations and would not be allowed to buy or sell shares in Ontario.

The Caisse, which is by far the largest investing institution in the country with about \$16bn in assets and \$5bn in equities, has agreed to disclose its holding in any company when it surpasses 5 per cent but otherwise remains unreported.

As for negotiated commissions, brokers generally believe that this innovation will have effects similar to those experienced in New York since 1975. Commissions for institutional investors are expected to drop by a quarter to a third and retail commissions to remain largely unchanged.

As long as the recent buoyant volumes held up, there should be lots of business for most brokers.

## Changes clip FIRA's wings

ALTHOUGH Mr. Trudeau promised during the 1980 election campaign to expand the powers of the Foreign Investment Review Agency, a number of changes in the last year have actually clipped its wings. The agency screens foreign direct investment in Canada and can advise the cabinet to forbid takeovers and new ventures not thought to bring significant benefit to Canada.

The result has been a considerable improvement in the agency's performance. Mr. Lunley has cleaned up the backlog of applications with which the slow and cautious thresholds for transactions qualifying for a small-business exemption that allows applicants to use a simpler form and to face an accelerated review, were widened.

For new investment and the direct acquisition of a Canadian-controlled business, the threshold was raised to C\$5m in assets and 200 employees from C\$3m in assets and 100 employees.

Where a foreign-controlled Canadian company is acquired in the course of a takeover of its parent or other foreign-controlled company, the threshold for small business review is now C\$15m in assets and 600 employees. However, the provision that allows the Minister to ask for a long review if the acquisition or investment raises important policy questions was unchanged.

During the summer, the agency for the first time also issued interpretation notes for the guidance of applicants so that they would more clearly understand certain provisions of the Act which have been particularly difficult to interpret.

**Foreign-based**

The notes cover such matters as the acquisition of businesses that have ceased operation and the performance in Canada of single or isolated contract projects by foreign-based businesses. And the agency undertook for the first time to provide before reviewing a case written rulings as to whether a transaction was reviewable under the Foreign Investment Review Act.

Important personnel changes came last autumn. The long-term head of the agency, Mr. Gorse Howarth, who had earned a reputation in the business community as an expert player of bureaucratic games, was replaced by

Mr. Robert Richardson, a fast-rising young civil servant with a knack for the efficient cutting of red tape.

And, more importantly, the Minister responsible for FIRA, Mr. Herbert Gray, the leading economic nationalist in Mr. Trudeau's Cabinet, was eased out in favour of Mr. Edward Lunley, a pro-business Minister.

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The notes cover such

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TO: EUROPEAN INDUSTRY

RE: BUSINESS OPPORTUNITIES  
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## CANADA VI

Computer trade deficit may pass \$5bn by 1985

## High technology role remains uncertain

THE CANADIAN Government has come to view Canada's role in the information age with a concern bordering on urgency. But with a small population spread over a wide territory, policy makers in Ottawa also realise the country will have to pick its route carefully in making the transition to a full participant in the global technology sweepstakes.

Already Canada has developed a world-leading telecommunications infrastructure. It was largely in response to the need for Canadians to communicate in a cost-effective manner across its vast open spaces that its communications companies developed.

These include Northern Telecom of Montreal and Mitel Corp. of Kanata, Ont., both of which have become world-class competitors. They and a new generation of specialised communications companies like Gandalf Data of Ottawa and Devcon Electronics of Saskatoon have learned the essential lesson involved in being a Canadian technology company—the domestic market is too small and world markets must be exploited.

Canada's relative strength in telecommunications has been offset by a virtual absence of participants in the large-scale computer industry. Almost every major American computer mainframe company has a subsidiary in Toronto. As a result Canada has racked up an annual trade imbalance in computers and office automation products which passed \$32bn in 1982 and is projected to reach \$35bn by 1983.

Such figures have prompted Government action on a number of fronts, much of which is starting to bear fruit this year. At the federal level the Department of Communications has initiated a multi-million dollar office communications systems programme to develop Canadian expertise in the so-called Office

of the Future. In the private sector a consortium called Office Communications Research Associates (OCRA) has sprung up to develop products for the same market. That consortium draws upon Gandalf, Systemhouse of Ottawa and CNCP Telecommunications, the telecommunications carrier which offers an alternative to the telephone companies.

Telidon, Canada's videotex and teletext system, has become—to the media anyway—the symbol of Canada's participation in the Information Age. The Government has already spent more than \$340m on developing and marketing the technology. It had hoped by last month to let the private sector carry the ball but because of the difficult economic times the cabinet recently gave the programme an additional injection of \$30m over two years.

**Field trial**

Telidon has yet to become a mass consumer phenomenon in Canada and the videotex market has become far more developed in the U.S. The future of the technology in Canada could well hinge on the Vista field trial being conducted by the country's largest telephone company, Bell Canada of Montreal. That trial ends in September and Bell has yet to decide whether to introduce a videotex service which would be paid for by consumers.

The most visible sign of Telidon in Canada is a tourist information programme supplied to hotels and tourist spots in Toronto. The Teleguide programme is being administered by Informart of Toronto. Informart is Canada's leading electronics publishing company, set up by Torstar Corporation and Southam, two Toronto-based publishing companies.

Teleguide is in part supported by Ontario's Government, which has made technology a major priority through its Board of Industrial

Leadership and Development (BILD) initiative.

As a result of the \$3125m BILD programme, which was first announced early in 1981, Ontario set up a network of technology centres designed to nurture specialised technology industries in a number of smaller urban centres. The last of these centres opened last February. They include a robotics centre in Peterborough, a computer-aided design and manufacturing centre in Cambridge, Ontario, a food processing plant in Chatham, Ontario, a microelectronics centre in Ottawa and a precision machinery centre in Sudbury.

The thrust of the centres is two-fold. On the user side the province wants to increase awareness in its sagging manufacturing sector of the productivity enhancing capabilities of the new technology. In addition to promoting use of new technologies it also wants to nurture the development of an industry creating such products.

On a smaller scale the

Federal Government is imple-

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## CANADA VIII

Almost all the important resource industries are reeling from a disastrous year.

## Western provinces in trouble



**THERE ARE** two sure signs that western Canada's once-booming economy is in trouble: the drop in the number of visiting businessmen who touch down in its provincial capitals and the number of Alberta licence plates on cars in eastern cities—a reflection of the exodus of young workers who can no longer find work in the oil fields and related industries.

Only six months ago, the resource-rich western provinces, Alberta in particular, were thought to be the engine for Canada's economic renewal. But the persistent word recession and plummeting international oil prices have shifted the focus of recovery to the manufacturing centres of Ontario, the potential beneficiaries of cheaper energy costs, and created a resentful wait-and-see attitude in the once-bubbly west.

Virtually every important resource activity in the west is reeling from a disastrous year, even at Hudson's Bay where the fur trade has slipped into the red for the first time in its 200-year history. The effect of the recession have shaken business confidence, provoked a series of political protests reminiscent of the depressed 1930s, and created staggering government deficits in provinces that had been pillars of well-managed economies.

Canada's forest industry, whose prosperity is essential for any recovery in British Columbia, is currently embroiled in a cross-border dispute with American lumbermen over the possibility of duties on Canadian exports. And prairie grain farmers, who had a record last harvest, are seeing net farm receipts down to levels of the mid-1950s because of low world prices and high production costs.

Nowhere is the prairie recession more apparent than in the oil and gas province of Alberta where Premier Peter Lougheed recently pronounced the end of a "credit card society" and the beginning of a long period of readjustment after several years of remarkable boom.

In 1982, for the first time in nearly a decade of feverish expansion, there was no growth in real domestic product in Alberta. Unemployment has climbed to nearly the national average of 12 per cent and after years of self-financing and hefty surpluses, the province now finds itself on the international money market seeking to borrow in excess of C\$1bn.

Last year, Alberta ran up a government deficit of nearly C\$2.4bn which was paid for out of accumulated surpluses. This year it is forecasting a total shortfall of about 2bn depending on the needs of some of its crown agencies.

The province still has nearly C\$13bn locked away in its heritage savings trust fund but it has cut by half the amount of resource revenues it normally channels into the fund in order to finance continuing programmes.

### Subsidies

The only Canadian government in recent years to follow Keynes' economic counsel to any degree, Alberta has been trying essentially to spend its way out of recession with massive billion dollar subsidies to the oil and gas industry, mortgage reduction programmes and capital works projects.

Earlier this year the federal Cabinet approved new gas exports to the U.S. to help alleviate the problem of "short in" domestic natural gas but the move is seen in the West as too little, too late. Big U.S. buyers are already trying to back out of long-term contracts because of sluggish demand and this has had a ripple effect through the Alberta economy.

February, normally the peak drilling month, showed a seven-year low in activity and government rents have suffered accordingly.

Across the border in British Columbia, the situation is not much different although the Government's response to it is. Without a flush trust fund to fall back on and facing an election shortly, the Social Credit Government of Premier William Bennett has embarked on an austerity programme and attempted to cut back government operations and the size of the Civil Service in this heavily unionised province.

Despite these efforts, however, the Bennett administration is still facing a hefty deficit which is compounded by the

fact that for the first time in decades the province's cyclical resource industries are all down together.

The first to recover may be British Columbia's lumber industry, which has broad economic significance in the province and is starting to rebound after nearly three years of decline. Some mills which had shut down have restarted and prices have risen slightly because of an upturn in U.S. housing starts.

The province is pushing ahead with a C\$3bn coal development in the north east corner despite some political controversy that the project has aroused. Older mines in the south have been closed because of the project and the contracted buyers (Japanese steel interests) have already made cutbacks of between 20 and 25 per cent of earlier contracts.

British Columbia is the second leading mineral producer province after Ontario, but its mining industry slumped badly last year, when a healthy before-tax profit from 1981 turned into a major loss. Copper, gold and silver bore the brunt of the recession and coal production increased only modestly despite brave forecasts.

The recession has not been so harsh on the bread basket province of Saskatchewan, but it too is predicting a relatively modest budgetary shortfall of about C\$200m in the fiscal year, first time in 20 years it has posted a deficit.

The major reason for the deficit has been the brisk, three-year drop in potash sales, a result both of more farmers, particularly in the U.S., willing to forego the use of additional potash-based fertiliser in these cash-short times and the pricing policies of Eastern bloc competitors such as the USSR and East Germany.

The massive staples of wheat and corn in mid-western U.S. bins this year will also bust prairie farmers by tending to international price down for the near term.

Saskatchewan's oil production, much more modest than Alberta but still the province's largest single source of revenue, has been on a roller coaster ride since 1981, enjoying brief spurts of unexpected interest in recent months.

In its uranium industry, the third largest mineral resource after oil and potash, may also stabilise this year after a poor showing in 1982, Eldorado,

Uranium closed its mine at

Uranium City last summer, citing low world prices, but another mine at Key Lake is scheduled to come into operation later this year with most of its production already pre-sold.

Manitoba, the poor sister of the four western provinces, is still mired in recession and has seen its hopes dashed for a quick megaproject boost: both Alberta and Saskatchewan have kept postponing plans for a western hydro-electric grid with a huge power station based in northern Manitoba.

Still, because of a relatively diversified economy compared to other western provinces, Manitoba has been able to survive the slump better in some

ways. The province's service sector is improving and retail sales showed the best percentage increase in Canada in 1982. The trend is expected to continue this year, thanks to a return of young workers who had left in the mid-1970s for the boom provinces further west.

However, the unemployment rate is still high in Manitoba and the primary industries such as mining, pulp and paper, and agriculture are troubled with labour and structural problems. Net cash receipts for grain, a lynchpin of the Manitoba economy, are projected to decline by about 6 per cent this year and the lack of farm prosperity has led to lay-offs and closures in related businesses.

Robert Sheppard



Open pit coal mining in south-eastern British Columbia. Coal production increased only modestly last year despite brave forecasts.

The provincial government's strategy is to revitalise manufacturing

## Ontario looks to technology



**A PRAGMATIC** middle-of-the-road Progressive Conservative Government has ruled Ontario for the past 40 years. While in federal politics Ontario has been the battleground on which elections have been won or lost, the provincial Tories' finely tuned balancing act with Ottawa and its careful nurturing of the country's largest manufacturing base has left Ontarians generally satisfied.

A general decline in Ontario's relative economic performance compared with the rest of Canada in recent years has not served to detract from a general feeling of prosperity.

Toronto, Ontario's capital city with its gleaming office blocks and unsurpassed Montreal as its premier city and established itself firmly as the country's commercial and financial centre.

The problem for the Ontario

Government, led for the past 11 years by the rather bland but highly competent premier, Mr William Davis, is to revitalise the mature manufacturing industry which accounts for almost half the province's output.

Mr Davis' strategy is to encourage a growing high-technology industry, the use of industrial robots in the traditional manufacturing industries and an increase in the manufacture of goods now imported into the province.

On the success of this strategy will depend Ontario's economic importance and consequently its political weight within the Canadian confederation.

Since the confederation was established in 1867 Ontario has been the pivotal mainstay of Canadian economic and political life.

High import tariffs in Canada's earlier years were used as a device to encourage the inflow of foreign capital to establish industries in Ontario and, to a lesser extent, in Quebec.

The consequence has been the growth of large branch plant industries, largely owned by Americans and subject to foreign control.

Lower tariff barriers under the GATT rules and increased competition in heavy manufac-

turing from Third World countries have hit at the base of Ontario's economy. Ontario's share of world trade declined from 4 per cent in 1970 to 2.5 per cent in 1981.

Also, as oil prices rose, economic growth within Canada shifted to the West. In 1970, Ontario had the highest per capita income in the country, now Alberta ranks as number one and Ontario has dropped to fifth place. While Canada overall has maintained a trade surplus, Ontario in 1981 had a deficit of C\$3.5bn.

The Ontario Government's vehicle for revitalising the economy is known by its acronym BILD, the Board of Industrial Leadership and Development. Set up in 1981, the board, which is composed of seven provincial Cabinet members, has C\$15bn to spend over five years.

### Innovation

Under the BILD programme five technology centres have set up in the province at a cost of C\$100m to co-operate with industry in providing research and information on new developments to aid productivity and speed new technological innovation and design.

The intention is to aid the infant but successful microelectronics industry in the Ottawa valley and to advise industry generally on computer-aided design and manufacturing.

Mr Gordon Walker, Minister for Industry and Trade, forecasts that in five years the Ontario micro-electronics industry will employ 100,000 people, against 15,000 today. However, success in building a micro-electronics industry is not a prerequisite for revitalising the manufacturing sector as a whole.

Ontario has moved to help small businesses in all sectors by removing its corporate income tax and through seminars and its overseas trade offices is encouraging them to export. A BILD programme is having some success in building up a food processing industry, to cut back on the C\$2.5bn of imports that came into the province in 1981.

The Davis government has also used BILD money to create about 40,000 temporary jobs to alleviate unemployment.

The recession last year hit Ontario unevenly. A disastrous worldwide nickel market forced the Sudbury mines to close giving the town the unenviable title of the unemployment capital of Canada. Some 16,000

jobs were lost in a depressed mining industry and 58,000 in manufacturing.

The small, but important job creation efforts are a prime example of the Davis Government's pragmatic political approach which has kept the Tories in power so long. Its desire to build up political IQUs with different constituencies extends to its dealings with Ottawa. Davis earned the ire of other provincial premiers by his consistent support of Trudeau's position on the repatriation of the constitution.

### Best deal

His aim has always been to keep the federal government on his side, and in turn get the best deal for a province which still has the largest part of Canada's population—35 per cent.

Ontario's accommodation with Ottawa, however, has not always proved in the province's own best interest. Its support in the mid-1970s for the federal policy of keeping Canada's domestic oil prices below world levels, would have served its manufacturing base well if other costs had also been kept under control. In the event, oil prices have had to rise, but at a time when the rest of the world, having taken its punishment earlier, is taking advantage of falling prices. Also, the cancellation of the big synthetic oil project in Alberta is hurting Ontario's manufacturers. Steelmakers, for example, have been deprived of upwards of C\$6bn of work.

Even so, the recession last year hit Ontario slightly less than Canada as a whole. Its output declined by about 4 per cent, less than the rest of the country, and unemployment of 1.2 per cent is less than the national average. Its better than average performance was due in part to a strong performance by the service sector where there was a net increase in employment—and a better than expected output from the automotive industry.

The cancellation by Chrysler of a C\$350m diesel engine plant in Windsor, which the provincial government was to help to finance, has come as a blow, but the motor industry, which accounts for 35 per cent of manufacturing exports, is continuing to invest substantially.

Some economists believe that Ontario could pick up faster than the rest of Canada. Normally, 78 per cent of its exports go to the U.S. and the recovery across the border is already having an impact on some Ontario industries, especially those related to the motor industry, but the Conference Board of Canada is predicting real growth in 1983 of only 1.1 per cent.

Nicholas Hirst

# ONTARIO IS INVESTING IN TOMORROW

The Province of Ontario understands that to provide a sound, secure environment for foreign investment, it is essential to be both in touch with, and equipped for, tomorrow. The strength of our number of future oriented industries are concrete testimony to the depth of our commitment to tomorrow.

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Our location is ideal. We are in the very hub of the heavily industrialized northeast sector of the continent: less than one day's trucking from the bulk of North

America's industrial market. Our labour force, both skilled and unskilled, is one of the finest on the continent. Labour and benefits costs are generally lower in Ontario than neighbouring U.S. regions.

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Our energy resources are secure and competitively priced. Our industrial electricity rates are lower on average than British, European and U.S. rates. And in both the public and private sectors, a great deal of capital is being invested in alternative energy development that will continue to keep us energy secure for many tomorrows to come.

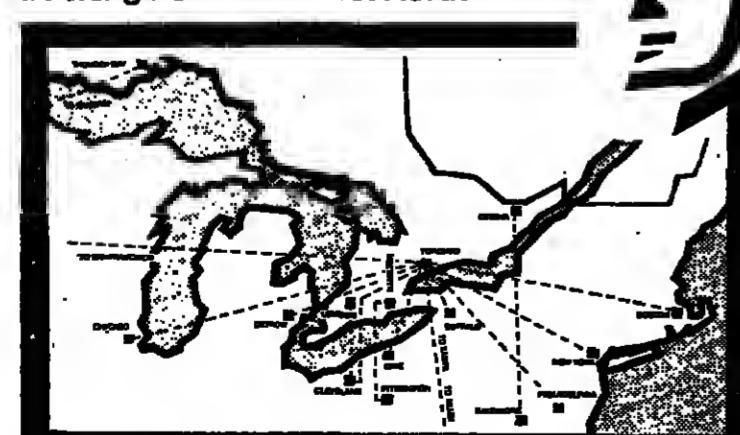
From a strictly dollars and cents point of view, Ontario has a great deal to offer too. An attractively priced Canadian dollar, a highly efficient and mobilized construction industry, that can set up your plant as quickly and professionally as any in North America, more than 30,000 acres of fully serviced industrial land, extensive transportation and communication links, a competitive tax environment, top-ranked research and development facilities and one of the most sophisticated international banking systems in the world.

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